

Assignment 1

Forces That Define Personal Insurance Products

EDUCATIONAL OBJECTIVES REVIEW

Time Required for Educational Objectives Review:

60 minutes

Note to Instructor: This exercise has been designed to help you direct a class discussion of the Educational Objectives (E.O.s) for this assignment. While leading the discussions, be sure to stress the importance of the E.O.s to the students. Divide the class into groups of three or four, with a leader for each group.

- E.O. 1** Describe personal insurers' goals for maintaining profitability, providing service, and meeting stakeholders' needs; and explain the following:
- a. What actions do insurers take to meet these goals?
 - b. Why do insurers have difficulty achieving these goals?

ASK: What profitability and service goals does a personal lines insurer have? What does a personal lines insurer do to meet these goals? Why are these goals difficult?

INSTRUCT: Instruct the students to draw the following grid on a sheet of paper:

	Goal	Actions Insurers Take	Difficulty in Achieving the Goals
Profitability			
Service			
Stakeholders' Needs			

Assign each of the three topics in the left column to different groups. Instruct the groups to complete the blocks on the sheet for their assigned topic. (Allow 5 minutes for discussion.)

DEBRIEF: Have the group leaders report the information that the groups have completed on their sheets. Instruct the students to complete their charts as the leaders report. A completed chart is provided below as a guide. Note that the chart might not include all possible correct answers.

	Goals	Actions Insurers Take	Difficulty in Achieving the Goals
Profitability	Operating profit	Economy of scale Catastrophe modeling Spread of risk Reinsurance Increasing policy writing in lines unaffected by catastrophe Decreasing windstorm exposure Increasing premiums	Increased sales not necessarily effective Catastrophes Extracontractual liability
Service	Meeting the customers' needs	Relationship building and event marketing	Balancing the demand for services with the expenses to provide those services
Stakeholders' Needs	Increasing stock values Creating dividends Offering competitive salaries and benefits to employees Responding to producers' needs	Attempting to meet the various demands	Balancing the cost of the dividends, salaries, benefits, and needs with the benefits

CHECK: Bring the focus back to the E.O. Discuss the balance that personal lines insurers must maintain to meet their goals with the actions required and the associated expenses.

E.O. 2 Explain how personal insurers' goals affect personal lines insurance products.

ASK: If you were the president of a personal lines insurance company, how would your company's goals affect what you can offer for insurance products (coverage, service, and premium)?

INSTRUCT: Instruct the students to review this short section of the text and create *in their own words* one sentence that summarizes the response to the Educational Objective. (Allow 4 minutes for discussion.)

DEBRIEF: Have the group leaders read their group's sentences to the class.
The following is a sample sentence for your use:

Insurers balance their goals; profitability goals must be balanced with the costs and benefits that are expected from the remaining goals.

CHECK: Bring the focus back to the E.O. Have the students summarize how insurers' goals affect personal lines products.

E.O. 3 Given a case study, illustrate how insurers can meet customer expectations.

In order to meet this objective, you should be able to:

- a. Describe customers' expectations for personal insurance products and services.
- b. Describe insurers' difficulties in meeting their customers' expectations.

ASK: What are customers' universal expectations about personal lines insurance?

Why are customers' individual expectations difficult to meet?

INSTRUCT: Some customers' expectations are universal; if these basic expectations are not met, customers will not be satisfied. The following are the universal expectations:

- Affordability
- Availability
- Service
- Fair Treatment

Assign one to each group. Instruct the students to briefly describe *in their own words* the group's assigned topic. (Allow 3 minutes for discussion.)

- DEBRIEF:** Ask the group leaders to describe their group's assigned topic.
- INSTRUCT:** Although the universal expectations are common to all customers, each customer is an individual. Insurers have difficulty meeting their customers' expectations because individual needs vary widely.
- Instruct the students to select one television character or public personality with whom they are all familiar. (1) Considering that individual's life situation and characteristics (refer to pages 1-16 and 1-17 of the text), describe that individual's insurance needs.
- (2) Place the character in a situation (example: the character is involved in an automobile accident, the character's family member is going to college, the character is buying a new home, the character's relative is moving into the character's home). Assume that the character has called a customer service representative for assistance with questions about the appropriate insurance to cover the character's new exposures. Describe the character's interest, time, and mood.
- DEBRIEF:** Ask the group leaders to name their group's selected character and report their descriptions for (1) and (2).
- DISCUSS:** Discuss the differences in the characters and their insurance expectations. If they are not obvious from the characters the students have selected, offer other examples that illustrate different insurance needs. Discuss an insurer's difficulty in meeting the wide variety of needs.
- CHECK:** Bring the focus back to the E.O. Ask the students to summarize the customers' expectations for personal insurance products and services, and insurers' difficulties in meeting customers' expectations.

E.O. 4 Explain how personal insurance is affected by each of the following:

- a. Social pressures
- b. Legislation
- c. Insurance regulation
- d. Judicial decisions

ASK: How do social pressures, legislation, regulation, and judicial decisions affect what an insurer can offer for products and how an insurer operates?

INSTRUCT: Assign the following topics to the groups:

- Social pressures
- Legislation

- Regulations regarding solvency
- Regulations regarding fair treatment
- Judicial decisions

Instruct each group to assume the role of an executive staff for an insurance company. As an executive staff, each group should explain how its company's products and operations could be affected by the group's assigned topic. (Allow 5 minutes for discussion.)

DEBRIEF: Ask the group leaders to report their group's explanations.

CHECK: Bring the focus back to the E.O. and Exhibit 1-7 on page 1-21 of the text. Discuss how a social issue can trigger a chain of events involving legislation and regulation. Also discuss how a case or controversy can result in case law that affects insurance.

E.O. 5 Explain how reinsurance affects the personal insurance products available from primary insurers and the price of these products.

ASK: What role does reinsurance play in the products primary insurers offer and the price of those products?

INSTRUCT: Assign the following questions among the groups:

1. How does reinsurance help to spread the cost of insurance evenly over time?
2. How does reinsurance help insurers stay in business after catastrophic losses?
3. What pressure does reinsurance place on primary insurers that can make coverage unavailable?

Ask the groups to discuss the assigned questions and summarize an answer in a few sentences. (Allow 5 minutes for discussion.)

DEBRIEF: Ask the group leaders to report their group's summaries.

CHECK: Bring the focus back to the E.O. Have the students explain how reinsurance affects personal insurance products and prices.

E.O. 6 Given a case study, explain how insurers', customers', regulators', and reinsurers' actions can change personal insurance products.

ASK: What actions can change personal insurance products?

INSTRUCT: Actions by insurers, customers, regulators, and reinsurers continually change personal insurance products. The aftermath of Hurricane Andrew provides examples of many insurance-related actions and the resulting dramatic changes in personal insurance products.

Assign the following questions based on the aftermath of Hurricane Andrew among the groups (text page numbers are provided to help the groups develop their answers):

1. Why did insurers cut back the number of policies they were willing to write in Florida? (p. 1-27)
2. What resulted from social pressure after insurers cut back the number of policies they would write? (p. 1-27)
3. What did the legislature do in response to the social pressure? (p. 1-27)
4. Why did insurers raise their rates? (pp. 1-27 to 1-28)
5. Why would the enforcement of insurers to pay for elevating homes in the flood plains be considered extracontractual liability? (p. 1-28)
6. What effect did reinsurance have on the affordability and availability of insurance? (pp. 1-29 to 1-30)

(Allow 4 minutes for discussion.)

DEBRIEF: Ask the group leaders to report their group's answers.

CHECK: Bring the focus back to the E.O. Discuss other local situations in which students have seen insurers', customers', regulators', and reinsurers' actions affect personal lines insurance.

ADDITIONAL EXERCISES

Note to Instructor: These additional exercises have been provided to supplement the material found in this assignment. Students should be encouraged to use these exercises as a review of what they have learned in the assignment.

TRUE/FALSE EXERCISE

Time Required for True/False Exercise:

5 minutes to complete the exercise; 10 minutes to review the exercise

Indicate with a check whether the following statements are **TRUE** or **FALSE**.

TRUE FALSE

- | | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | 1. Approximately half of all personal lines insurers have goals involving profit or additions to surplus. |
| <input type="checkbox"/> | <input type="checkbox"/> | 2. Insurers can increase profits by increasing insurance sales. |
| <input type="checkbox"/> | <input type="checkbox"/> | 3. Claims are not a static expense allocation that an insurer can calculate with accuracy each year. |
| <input type="checkbox"/> | <input type="checkbox"/> | 4. A positive effect of claims consciousness is that policyholders know more about the coverage provided by their personal insurance policy now than they did in the 1960s. |
| <input type="checkbox"/> | <input type="checkbox"/> | 5. An insurer cannot reduce employee compensation and benefits below those of competitors, or it will lose valuable employees and incur additional cost to obtain and train new employees. |
| <input type="checkbox"/> | <input type="checkbox"/> | 6. Personal insurance customers generally believe that insurance is affordable because it consumes less of their budget than does clothing or entertainment. |
| <input type="checkbox"/> | <input type="checkbox"/> | 7. Personal insurance coverage is usually available from many sources for most major personal loss exposures. |
| <input type="checkbox"/> | <input type="checkbox"/> | 8. Personal insurance customers universally seek low prices and little unsolicited insurer contact. |
| <input type="checkbox"/> | <input type="checkbox"/> | 9. Social pressure, by itself, is not enough to cause insurance companies to change the insurance products they offer. |
| <input type="checkbox"/> | <input type="checkbox"/> | 10. The fluctuating prices of reinsurance continually disrupt the primary insurance industry, making consistent pricing difficult. |

COMPLETION EXERCISE

Time Required for Completion Exercise:

5 minutes to complete exercise; 10 minutes to review exercise

Complete each sentence with the appropriate word or phrase.

1. Insurers have two primary sources of income: _____ and _____.
2. _____ involves the use of computerized simulations to identify the potential extent of damage from a single catastrophic event such as a hurricane or an earthquake.
3. In considering what services to offer, insurance companies balance customer demands for services with the _____.
4. Personal insurance customers have some universal expectations about insurance, which include _____, availability, services, and _____.
5. Research conducted by Berry, Parasuraman, and Zeithaml identified ten dimensions of services applicable to all service industries. Among those dimensions was _____, which means consistently providing expected levels of service.
6. Customers expect to be treated fairly, which means that they want coverage availability, policy renewals, and prices to be based on _____.
7. _____, _____, and _____ are the keys to understanding the level of service demanded by a customer at a point in time.
8. Insurance customers share one expectation: Communication from an insurer should contain no _____.
9. Social issues involving insurance that are not addressed by insurers can grow and eventually create public pressure. At that point, _____ might react to the public need.
10. _____ helps to spread evenly over time the prices customers pay for personal insurance.

MATCHING EXERCISE

Time Required for Matching Exercise:

5 minutes to complete exercise; 10 minutes to review exercise

Match each term with the appropriate definition.

- | | |
|--|--|
| A. Extracontractual liability | 1. ____ Activity aimed at filling a customer's needs at the time of a triggering event |
| B. Virtual team | 2. ____ The largest variable in writing insurance |
| C. The cost of claims | 3. ____ Resolution of an issue that previously has not been brought before the court |
| D. Satisfactory service | 4. ____ A group of insurance company employees or employees of an associated organization who share information through a database and converse through electronic media |
| E. Demographic profile | 5. ____ The common characteristics of a group of people |
| F. Economy of scale | 6. ____ A method for delivering services that approaches customers as associates rather than as sources for sales |
| G. Relationship building | 7. ____ An insurer's obligation that goes beyond the terms of a contract |
| H. Case law | 8. ____ An action to reduce the financial effects of future catastrophic losses |
| I. Increased geographic spread of risk | 9. ____ A reduction in average cost of a product or a process as the size of a company increases |
| J. Event marketing | 10. ____ The value that an individual customer seeks from a provider |

SHORT ANSWER QUESTIONS

Time Required for Short Answer Questions:

20 minutes

Note to Instructor: The following short answer questions have been provided for your use as an exam in class or as an exercise that the students may take with them for further work.

1. Personal lines insurers have difficulty predicting the claims they will experience each year. Describe *two* factors that contribute to this difficulty.

2. Although some insurance customers' expectations are universal, insurers still have difficulty meeting their customers' expectations. Explain why this is true.

3. Assume the role of the president of a large national insurance company. Following a number of catastrophic ice storms in one northern state, many insurance companies have discontinued writing homeowners coverage in that state. The availability of affordable homeowners coverage is becoming a social issue in the state as homeowners are forced to seek coverage in excess and surplus lines.
Why would you encourage your executive staff members and executives of other insurance companies to seek ways to make affordable homeowners coverage available in this state?

ANSWERS TO THE ADDITIONAL EXERCISES

TRUE/FALSE

1. F
2. F
3. T
4. T
5. T
6. F
7. T
8. F
9. F
10. F

COMPLETION

1. underwriting income/investment income
2. catastrophe modeling
3. expense (to provide the service)
4. affordability/fair treatment
5. reliability
6. understandable and consistently applied factors
7. interest, time, and mood
8. surprises
9. state legislature
10. reinsurance

MATCHING

1. J
2. C
3. H
4. B
5. E
6. G
7. A
8. I
9. F
10. D

SHORT ANSWER QUESTIONS

Based on	Text Pages	Possible Answers
1. E.O. 1	1-6 to 1-7	<ul style="list-style-type: none">• Catastrophes have exceeded insurers' predictions.• Personal insurance customers have become increasingly claims conscious.• Extracontractual liability creates unanticipated claims.
2. E.O. 3	1-15 to 1-20	Customers have different needs and expectations of satisfactory service based on their own characteristics. In addition, individuals' insurance needs and expectations change as their life situation changes. Further, customers' interest, time, and mood at any point in time will change the customers' expectations.
3. E.O. 4	1-21 to 1-22	Social issues can grow until they eventually create enough public pressure to gain political attention. At that point legislation might be passed to correct the problem and mandate insurers' participation in making coverage available and affordable.