

# Assignment 11

## Responding to Current Issues

### 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 Explain why specialists in personal insurance should be able to identify the benefits and drawbacks of current issues.**

**ASK:** Why is it important for people who work in personal insurance to be aware of current personal insurance issues?

**INSTRUCT:** Instruct the students to identify two reasons why a specialist should be informed about current issues that pertain to insurance issues.

**DEBRIEF:** Have the leaders report their reasons.

**CHECK:** Bring the discussion back to the E.O., and check for understanding of the reasons specialists should understand the benefits and drawbacks of current issues.

**E.O. 2 a. Describe the major social, regulatory, and insurer perspectives on the following issues:**

- bank sales of insurance
- ratemaking and pricing
- inner-city exposures
- territorial rating

- unfair discrimination in rating
- consumer groups and access to rating information
- tort reform
- distribution of the cost of joint underwriting associations (JUAs)
- legislation and JUAs
- catastrophe funds

b. Use new sources to illustrate each perspective.

**INSTRUCT:** This educational objective encompasses the remainder of the chapter. Instruct the students to select two or three bulleted items to keep in mind as you review the material in the text. Students should be prepared at the end of the class to summarize the social, regulatory, and insurer perspectives for the selected items.

**WRITE:** Write the selected items for each group on a white board or flip chart. Be sure that all bulleted items in the E.O. are covered.

**E.O. 3** Describe the advantages and disadvantages of financial institutions' becoming involved in the following insurance functions:

- Marketing
- Underwriting
- Service claims

**ASK:** What are the advantages and disadvantages of banks' involvement in insurance?

**INSTRUCT:** Draw the following chart on a white board or flip chart:

	Advantages	Disadvantages
Marketing		
Underwriting		
Claims service		

Instruct the students to select either the “Advantages” or “Disadvantages” column. After reviewing the material in the text, the students should be prepared to report which information would complete their chosen column. (Allow 5 minutes for discussion.)

**DEBRIEF:** Have the leaders report the information that will complete the chart.

WRITE: Write the information in the chart as the leaders report.

CHECK: Bring the discussion back to the E.O., and check for understanding of the pros and cons of banks' involvement in the insurance business.

**E.O. 4**      **Contrast the social, insurer, and regulatory perspectives of the following:**

- **Offering personal lines coverage in high loss exposure areas**
- **Satisfying regulatory limitations on territorial rate differences**
- **Selecting risks based on unfairly discriminatory criteria**
- **Providing access to detailed rating information to special interest groups**

ASK: What are the social, insurer, and regulatory issues involving inner-city exposures, territorial rating, unfair discrimination in rating, and consumer access to rating information?

INSTRUCT: Instruct the students to select one or two of the bulleted items in the E.O. Students should identify and summarize in their own words the issues in the selected items. (Allow 5 minutes for discussion.)

DEBRIEF: Have the leaders report their summaries. Cover any bulleted item that was not selected by the groups.

CHECK: Bring the discussion back to the E.O., and check for understanding of the issues.

**E.O. 5**      **Describe the objectives of tort reform, illustrate abuses of the current tort system, and explain why tort reform proponents encounter opposition.**

ASK: What is tort reform supposed to accomplish, and why has there been opposition to it?

INSTRUCT: Instruct the students to identify one objective of tort reform and one reason why it has been opposed. (Allow 5 minutes for discussion.)

DEBRIEF: Have the leaders report their responses.

WRITE: Write the responses on the white board or flip chart as the leaders report them. List them in two columns labeled "pro" (the objectives) and "con" (the opposition).

CHECK: Bring the discussion back to the E.O., and check for understanding of various issues regarding tort reform.

**E.O. 6 Explain how the costs of a joint underwriting association (JUA) are distributed, and describe what can happen when a JUA's costs are not adequately supported by its rates.**

ASK: Who pays for the costs of a JUA, and what happens when the costs are not adequately supported by its rates?

INSTRUCT: Instruct the students to summarize (1) how the losses and expenses of a JUA are supported and (2) what happens if the funds are inadequate. (Allow 5 minutes for discussion.)

DEBRIEF: Have the leaders report their summaries.

CHECK: Bring the discussion back to the E.O., and check for understanding of the financial support of a JUA.

**E.O. 7 Explain how state political interests influence JUA legislation and how JUA legislation affects insurance pricing and availability.**

ASK: How do state politics affect JUA legislation? How does JUA legislation affect insurance pricing and availability?

INSTRUCT: Instruct the students to summarize their response to the two questions you have asked. (Allow 3 minutes for discussion.)

DEBRIEF: Have the leaders report the summaries.

CHECK: Bring the discussion back to the E.O., and check for understanding of the effect of state politics on the JUA and the pricing/availability of insurance.

**E.O. 8 Describe how catastrophe funds are created, and explain why they might be needed.**

ASK: What are catastrophe funds?

How are they created?

Why are they important?

INSTRUCT: Instruct the students to select one of the questions you have just posed and prepare an answer to that question. (Allow 3 minutes for discussion.)

DEBRIEF: Have the leaders report their answers.

CHECK: Bring the discussion back to the E.O., and check for understanding of catastrophe funds.

**E.O. 2 (revisited) Return to E.O. 2.**

DEBRIEF: Have the leaders report their summaries for the bulleted items selected from E.O. 2.

CHECK: Bring the discussion back to the E.O., and check for understanding of the major social, regulatory, and insurer perspectives for the issues listed.

## 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. Newspaper articles are free of bias and can be used as a reliable source of information regarding insurance issues.  |
| <input type="checkbox"/> | <input type="checkbox"/> | 2. If banks become involved in insurance, insurance producers believe that banks will compete unfairly and try to coerce loan or checking account customers to buy the bank's personal insurance products.              |
| <input type="checkbox"/> | <input type="checkbox"/> | 3. Proponents of bank insurance sales contend that bank insurance sales will decrease competition and centralize insurance purchases only through financial institutions.   |
| <input type="checkbox"/> | <input type="checkbox"/> | 4. Banks are interested in accepting the risk involved in paying losses.  |
| <input type="checkbox"/> | <input type="checkbox"/> | 5. Loss exposures for inner-city property are similar to those of coastal community property; the exposures are greater than the loss exposures for the majority of homeowners throughout the U.S.                      |
| <input type="checkbox"/> | <input type="checkbox"/> | 6. Consumer groups obtain data that can be interpreted in several ways. However, using such information always results in court decisions and legislative change that improve conditions for the majority of consumers. |
| <input type="checkbox"/> | <input type="checkbox"/> | 7. The objective of tort reform is to reduce the number of plaintiffs' attorneys.   |
| <input type="checkbox"/> | <input type="checkbox"/> | 8. A JUA is an administrative organization authorized by a state legislature and managed by individuals appointed by the legislature or the state administrative department for insurance regulation.                   |
| <input type="checkbox"/> | <input type="checkbox"/> | 9. Most JUAs have been formed to provide automobile coverage.   |
| <input type="checkbox"/> | <input type="checkbox"/> | 10. Large catastrophe funds require multiple sources of funds, since few insurers have sufficient assets to provide capacity of over \$1 billion for a specific peril in a single geographic area.                      |

## 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. News reporting, including articles that appear in insurance periodicals, can be \_\_\_\_\_.
2. \_\_\_\_\_ is a private organization that studies products and social issues and initiates legal action when it identifies issues that might affect the rights of certain groups of consumers.
3. Banks might prefer insurance \_\_\_\_\_ to underwriting or claim handling.
4. Insurers prefer to charge rates that reflect the relative cost of losses in \_\_\_\_\_ so that homeowners in each territory pay a premium that reasonably reflects the cost of paying losses in each territory.
5. To reduce the amount of legal expense associated with claims for negligence, tort reform measures typically restrict the rights of \_\_\_\_\_ in some way.
6. Many insurance professionals believe that a major factor affecting price and availability of personal insurance is the cost of defending and settling \_\_\_\_\_.
7. According to Charles Trowbridge, the cost of tort suits is distributed among \_\_\_\_\_.
8. Under JUAs, average and low-risk drivers subsidize \_\_\_\_\_ drivers (except in New Jersey).
9. State legislation creating JUAs is usually written with a/an \_\_\_\_\_.
10. The structure of a large catastrophe fund includes layers of reinsurance over a \_\_\_\_\_.

## 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. Perspective                      | 1. ____ A bank's function in the international market of selling and underwriting insurance  |
| B. Intermediary                     | 2. ____ An assessment made to auto insurance customers that subsidizes the high-risk drivers   |
| C. Bank assurance                   | 3. ____ Insurers classify and rate risks according to criteria that can be used to demonstrate differences in loss experience                        |
| D. Fair discrimination              | 4. ____ The role banks would like to serve between insurers and bank customers   |
| E. Unfair discrimination            | 5. ____ A provision in common British law requiring the loser of a lawsuit to pay the legal expenses of the winner                                   |
| F. Tort reform                      | 6. ____ Would set up a no-fault insurance system requiring insurers to settle claims within 30 days and pay for all damage regardless of blame       |
| G. Loser-pays-legal-costs-of-winner | 7. ____ The gradual process of proposing, debating, and passing legislation that reduces legal costs and settlement awards due to negligent behavior |
| H. Proposition 200                  | 8. ____ Would cap plaintiffs' layer fees at 15% of the settlement if the plaintiff agrees to settle within 60 days                                   |
| I. Proposition 202                  | 9. ____ A bias or viewpoint regarding a subject  |
| J. Recoupment                       | 10. ____ Rates based on the customer's race, sex, religion, or national origin   |



## ANSWERS TO THE ADDITIONAL EXERCISES

### TRUE/FALSE

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

### COMPLETION

1. biased
2. Consumers Union
3. distribution/sales
4. each territory
5. accident victims
6. liability claims
7. insurance customer/products
8. high-risk
9. expiration/sunset clause
10. primary layer of protection

### MATCHING

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

## SHORT ANSWER QUESTIONS

Based on	Text Pages	Possible Answer
1. E.O. 11.1	3-4 to 3-5	Insurance customers respond to articles that appear in newspapers and on television and ask their insurance representatives for explanations. Insurance professionals must be aware of the current issues and be prepared to provide additional information. Recognizing current issues and concerns helps the insurance professional understand the various and conflicting interests that are reflected in insurance news.
2. E.O. 11.3	3-7 to 3-10	Banks would be interested in serving as an intermediary between an insurer and the bank's customers. The bank could offer an insurer's products to customers and receive a distribution fee from the insurer for accessing those customers.
3. E.O. 11.5	3-34 to 3-43	<ol style="list-style-type: none"><li>An objective of tort reform is to minimize the cost of selling disputes when bodily injury and property damage occur.</li><li>No-fault laws limit an individual's right to recover damages.</li></ol>
4. E.O. 11.6	3-43 to 3-44	JUAs pass the costs of their operations along to their customers.