

Assignment 9

Responding to Changing Customer Needs

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 Given examples of customer expectations of personal insurance, illustrate how insurers balance those expectations with the insurers' needs for profit and expense control.

ASK: How do insurers balance customer demands for low price and service with the need to run a business and make a profit?

INSTRUCT: Instruct the students to assume they are at a family gathering. One of your relatives (knowing you work in the insurance industry) asks you, "Why don't insurance companies just cut their rates so that people can afford them?" Several family members have collected around you to hear your response. How will you respond? (Allow 3 minutes for discussion.)

DEBRIEF: Have the leaders report their responses. Make sure that the points displayed in Exhibit 9-1 in the text are included in the discussion.

CHECK: Bring the discussion back to the E.O., and check for understanding of customer expectations and the balance insurers must strike to operate.

E.O. 2 Explain the advantages and disadvantages of a single source of insurance from the customer’s and insurer’s perspectives. Explain how various distribution systems approach multiproduct sales.

ASK: As an insurance consumer, should you purchase insurance from one source or from several sources? Would an insurer prefer that you consolidate your insurance purchases?

INSTRUCT: Instruct the students to refer to Exhibit 9-2 in the text. Assign either the “customer” or the “insurer” to the groups as a topic. If you have enough groups, assign one of the blocks from the exhibit to each group. Instruct the groups to develop a summary based on the information in the exhibit and their own experience recommending or discouraging consolidation. (Allow 4 minutes for discussion.)

DEBRIEF: Have the leaders report their summaries.

ASK: Which distribution systems allow an insurer to consolidate insurance purchases, and to what extent?

DISCUSS: Discuss in an open forum.

CHECK: Bring the discussion back to the E.O., and check for understanding of the advantages and disadvantages of consolidated insurance purchases and the extent to which distribution systems address consolidation.

E.O. 3 Describe the need for nonstandard sources of insurance, and explain how these sources operate.

ASK: Who needs coverages that are not provided by the standard market? What sources provide these coverages?

DISCUSS: In an open forum, discuss the following:

Two personal insurance customers have insurance needs not met by the standard market: (1) insureds with unusual loss experience and (2) insureds with unusual exposures.

Discuss examples of each of these.

INSTRUCT: Divide the following topics (sources of nonstandard insurance) among the groups:

- admitted insurers
- nonadmitted insurers

Instruct the participants to explain how the assigned sources provide coverage that the standard market does not, and explain how the assigned source operates. (Allow 3 minutes for discussion.)

DEBRIEF: Have the leaders report their summaries.

CHECK: Bring the discussion back to the E.O., and check for understanding of nonstandard sources of personal insurance coverage.

E.O. 4 Give examples of insurance products that address exposures resulting from

- ownership of manufactured housing
- condominiums
- shared residences
- students living away from home
- retirees in assisted-living situations
- individuals working temporarily or under contract
- home-based businesses

ASK: How can residential arrangements that are not average be addressed by personal insurance products?

INSTRUCT: Assign the bulleted items in the Educational Objective among the groups.

Instruct the groups to summarize the insurance needs of the assigned subjects and the products that address those needs. (Allow 3 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 insurance products that meet unusual residential needs.

E.O. 5 Describe non-U.S. exposures that a U.S. citizen might have, and illustrate differences in how insurance is provided outside the U.S.

ASK: How do you address exposures outside the U.S. for a U.S. citizen or expatriate?

INSTRUCT: Instruct the participants to assume the role of an insurance agent. One of your long-standing customers has just walked into your office and advised you that she has been transferred to Tokyo. She has rented an apartment there. She will buy a car when she arrives. She will maintain her home in the U.S. while she is gone (her twenty-year-old son will reside in the home).

What are your client's exposures?

How can your client obtain coverage for these exposures?

(Allow 4 minutes for discussion.)

DEBRIEF: Have the leaders report the exposures and coverage sources.

CHECK: Bring the discussion back to the E.O., and check for understanding of non-U.S. exposures and coverage sources.

E.O. 6 Explain how insurers respond to changing social pressures to limit the cost of insurance. Identify costs that insurers control, and explain why some costs are more difficult to control. Illustrate examples of social actions that might help reduce insurance costs.

ASK: How do insurers respond to social pressures, especially the most common pressure of controlling the cost of insurance?

INSTRUCT: Divide the following subjects among the groups:

- claim costs—difficult to control
- social measure to control insurance costs
- social pressure to limit insurer profits

Instruct the students to create a summary of the subject as presented in the text. (Allow 3 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 pressures to control insurance costs and the problems in controlling costs.

E.O. 7 Explain how the following might contribute to lower customer costs for personal insurance:

- measures to limit medical costs
- loss control for homes
- insurer mergers

ASK: How do the bulleted items in the Educational Objective help to lower personal insurance premiums?

INSTRUCT: Assign the bulleted items in the Educational Objective to the groups. Instruct the groups to assume they are addressing the executive staff at an insurance company. They are introducing the subject of lower personal insurance premiums. Prepare a summary of the subject to accomplish this task. (Allow 4 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 insurer's cost-cutting measures that help to reduce premiums.

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. Insurers that can increase their premium without adding to their fixed expenses will reduce their expense ratios. |
| <input type="checkbox"/> | <input type="checkbox"/> | 2. One advantage for an insurer of offering multiple products is that it can permanently balance unprofitable product lines. |
| <input type="checkbox"/> | <input type="checkbox"/> | 3. Group marketing programs offer the widest variety of insurance products to encourage account sales. |
| <input type="checkbox"/> | <input type="checkbox"/> | 4. Admitted insurers are subject to the full range of state regulation, including financial examinations by the insurance department. |
| <input type="checkbox"/> | <input type="checkbox"/> | 5. Because they hold a certificate of authority, nonadmitted insurers are closely regulated by each state in which they write business. |
| <input type="checkbox"/> | <input type="checkbox"/> | 6. A modular home can be built in one location and transported in a semicomplete form to the residence site. |
| <input type="checkbox"/> | <input type="checkbox"/> | 7. One of the reasons condominiums have become popular is the shared responsibility for premises maintenance. |
| <input type="checkbox"/> | <input type="checkbox"/> | 8. In some parts of the world, the incidence of theft and burglary is so high that coverage for personal property against these perils is too expensive for most people to afford. |
| <input type="checkbox"/> | <input type="checkbox"/> | 9. U.S. citizens are not permitted to own real estate outside the U.S. |
| <input type="checkbox"/> | <input type="checkbox"/> | 10. The large numbers of individuals retiring and living in coastal communities exposed to windstorm have broadened the premium base and reduced the pressure on insurers to provide protection against windstorm losses. |

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. The point at which the demand of customers matches the willingness of insurers to supply a product at a given price is called (by economists) an _____ between demand and supply.
2. Insurers attract more customers by offering product _____ .
3. One of the disadvantages to a customer of purchasing multiple policies from one source is that it might be perceived negatively as _____ sales.
4. _____ market unusual coverages offered by insurers.
5. Personal lines customers need policies from the nonstandard market for two reasons: unusual loss experience and _____ .
6. Because states cannot tax nonadmitted insurers directly, most require _____ to pay a tax equal to the tax an admitted insurer would have paid on the total premium they write with nonadmitted insurers.
7. _____ around the base of a mobile home can limit the collection of debris under the home to reduce the possibility of fire being carried under the mobile home and igniting the structure.
8. All condominiums involve some space that is owned individually and some space that is owned collectively by members of the _____ .
9. The definition of which specific property belongs to each condominium unit owner and which belongs to the owners collectively is defined by the _____.
10. The use of a vehicle outside the U.S. requires purchasing _____ coverage.

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. Social changes | 1. ____ Those insurers that provide coverage normally not available from insurers because of an individual's unusual loss experience or unusual exposures |
| B. Purchasing multiple insurance products from one source | 2. ____ A building owned by a corporation in which building occupants own stock |
| C. Account sale | 3. ____ A term used in many countries for bodily injury and property damage liability |
| D. Managing general agent | 4. ____ Reduces an insurer's policy processing costs |
| E. Nonstandard market | 5. ____ People who live for a limited period of time in a country other than the country of their citizenship |
| F. Nonadmitted insurers | 6. ____ Contractually defined and legally enforceable shared ownership of a building |
| G. Condominium | 7. ____ Create customer needs and sales opportunities |
| H. Cooperative | 8. ____ Two or more insurance policies are sold to the same customer |
| I. Third-party liability | 9. ____ Conduct business in a state without obtaining a certificate of authority from the insurance department |
| J. Expatriates | 10. ____ Performs some of the insurer's underwriting and claim duties in return for higher commissions |

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. An insurer is putting together a plan to lower expenses by selling more policies to each customer. Describe *two* disadvantages the insurer should keep in mind when planning for multiple product sales.

2. Describe *two* special exposures of condominium owners, and give examples of insurance products that address those exposures.

3. U.S. citizens might purchase real estate or an automobile in another country. How can this individual obtain insurance for the following exposures?
 - a. U.S. citizen living in the U.S. who owns a secondary home in another country

 - b. U.S. citizen temporarily residing in another country who purchases an automobile

ANSWERS TO THE ADDITIONAL EXERCISES

TRUE/FALSE

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

COMPLETION

1. equilibrium
2. variety
3. tie-in
4. specialty brokers
5. unusual experience
6. surplus lines brokers
7. skirting
8. condominium association
9. condominium association agreement (bylaws, covenants)
10. local liability / local physical damage

MATCHING

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

SHORT ANSWER QUESTIONS

Based on	Text Pages	Possible Answer
1. E.O. 9.2	9-7 to 9-8	<ul style="list-style-type: none">• The customer might perceive the sales technique negatively as a “tie-in” sale.• The insurer might obtain unscrupulous customers submitting fraudulent claims, which can increase claim costs.
2. E.O. 9.4	9-25 to 9-29	<ul style="list-style-type: none">• Unit owners are obliged by the condominium association agreement to pay their share of assessments that might be made against unit owners as a result of damage to common property or from liability suits brought against the association for which there is no other available coverage. An increased limit of coverage as an endorsement attached to the HO-6 or an umbrella policy can provide coverage for this exposure.• The value of the improvements or alterations in the unit varies greatly according to the condominium association agreement. Coverage A under the HO-6 policy should be increased to equal the property for which the unit owner is responsible. The HO-6 can also be endorsed (HO 17 32) to expand that coverage to “all-risks.”
3. E.O. 9.5	9-34 to 9-41	<ol style="list-style-type: none">a. The property owner will purchase coverage from companies in that country. In the UK, Germany, and France, the property owner can purchase a multiperil property and liability policy similar to the homeowners policy in the U.S. In other parts of the world, insurance coverage availability varies greatly, if it is available at all.b. Generally, the U.S. citizen must purchase automobile coverage from a company in the country of residence.