CONTENTS

Preface FUNDAMENTALS OF RISK MANAGEMENT AND INSURANCE PART ONE RISK AND ITS TREATMENT Different Definitions Chance of Loss 4 Peril and Hazard 5 Classification of Risk 6 Major Personal Risks and Commercial Risks 7 Burden of Risk on Society 12 Techniques for Managing Risk 12 Summary 15 • Key Concepts and Terms 16 • Review Questions 16 • Application Questions 17 Internet Resources 18 Selected References 18 Notes 18 Case Application 15 INSIGHT 1.1: HAVE HEALTH INSURANCE? THINK YOU'RE WELL PROTECTED? THINK AGAIN! CHAPTER 2 THE INSURANCE MECHANISM 19 Definition of Insurance Basic Characteristics of Insurance Characteristics of an Ideally Insurable Risk Two Applications: The Risks of Fire and Unemployment 24 Adverse Selection and Insurance 26 Insurance and Gambling Compared 26 Insurance and Hedging Compared 26 Types of Insurance 27 Benefits of Insurance to Society 30 Costs of Insurance to Society 31 Summary 35 • Key Concepts and Terms 35 • Review Questions 35 • Application Questions 36 Internet Resources 36 Selected References 37 Notes 37 Case Application 34 INSIGHT 2.1: INSURANCE FRAUD HALL OF SHAME—SHOCKING EXAMPLES OF INSURANCE 33 FRAUD INSIGHT 2.2: DON'T THINK INSURANCE FRAUD IS COMMITTED ONLY BY HARDENED CROOKS 34 Appendix Basic Statistics and the Law of Large Numbers 39 FUNDAMENTALS OF RISK MANAGEMENT

Meaning of Risk Management 44

Objectives of Risk Management

44

CHAPTER 4

PART TWO

CHAPTER 5

Steps in the Risk Management Process 45
Identify Loss Exposures 46
Measure and Analyze the Loss Exposures 46
Select the Appropriate Combination of Techniques for Treating the Loss Exposures 47
Implement and Monitor the Risk Management Program 54
Benefits of Risk Management 55
Personal Risk Management 55
Summary 58 • Key Concepts and Terms 59 • Review Questions 59 • Application Questions 59 • Internet Resources 60 • Selected References 61 • Notes 61
Case Application 58
INSIGHT 3.1: ADVANTAGES OF SELF INSURANCE 50
INSIGHT 3.2: SHOW ME THE MONEY—HOW MUCH DO RISK MANAGERS EARN? 56
ADDITIONAL TOPICS IN RISK MANAGEMENT 62
The Changing Scope of Risk Management 63
Insurance Market Dynamics 68
Loss Forecasting 72
Financial Analysis in Risk Management Decision Making 75
Other Risk Management Tools 78
Summary 80 • Key Concepts and Terms 81 • Review Questions 81 • Application Questions 81 • Internet Resources 82 • Selected References 83 • Notes 83
Case Application 80
INSIGHT 4.1: THE RISE OF THE WEATHER RISK MANAGEMENT MARKET 73
Appendix Risk Management Application Problems 85
any means Officine entreprinted the adjacetes aims A.O. of indicate the entreprint the pr
The state of the s
LAW AND THE INSURANCE CONTRACT 91
LEGAL PRINCIPLES IN INSURANCE 92
Principle of Indemnity 93
Principle of Insurable Interest 96
Principle of Subrogation 97
Principle of Utmost Good Faith 99
Requirements of an Insurance Contract 101
Distinct Legal Characteristics of Insurance Contracts 102
Law and the Insurance Agent 104
Summary 106 • Key Concepts and Terms 107 • Review Questions 107
Application Questions 108 Internet Resources 109 Selected References 109 Notes 109
Case Application 106
INSIGHT 5.1: CORPORATION LACKING INSURABLE INTEREST AT TIME OF DEATH CAN
RECEIVE LIFE INSURANCE PROCEEDS 98
INSIGHT 5.2: AUTO INSURER DENIES COVERAGE BECAUSE OF MATERIAL
MICREPRESENTATION 100

INSIGHT 5.3: INSURER VOIDS COVERAGE BECAUSE OF MISREPRESENTATIONS

100

IN PROOF OF LOSS

CHAPTER 6 ANALYSIS OF INSURANCE CONTRACTS 111 Basic Parts of an Insurance Contract 112 Definition of "Insured" 115 Endorsements and Riders 115 Deductibles 116 Coinsurance 118 Coinsurance in Health Insurance 120 Other-Insurance Provisions 120 Summary 122 • Key Concepts and Terms 123 • Review Questions 123 • Application Questions 124 Internet Resources 124 Selected References 125 Notes 125 Case Application 122 INSIGHT 6.1: WILL YOUR AUTO INSURANCE COVER YOU WHEN YOU DRIVE ANOTHER PERSON'S CAR? 116 PERSONAL PROPERTY AND LIABILITY RISKS PART THREE CHAPTER 7 THE LIABILITY RISK Basis of Legal Liability 129 Law of Negligence 130 Imputed Negligence 132 Res Ipsa Loquitur 133 Specific Applications of the Law of Negligence Current Tort Liability Problems 135 Summary 144 • Key Concepts and Terms 145 • Review Questions 145 • Application Questions 146 Internet Resources 147 Selected References 147 Notes 148 Case Application INSIGHT 7.1: JUDICIAL HELLHOLES 2008 INSIGHT 7.2: STUDY SAYS WRONG-SITE SURGERY IS VERY RARE AND PREVENTABLE 141 INSIGHT 7.3: MEDICAL ERRORS RANK WITH HIGHWAY ACCIDENTS AND BREAST CANCER AS A MAJOR KILLER IN THE UNITED STATES HOMEOWNERS INSURANCE: SECTION I COVERAGES CHAPTER 8 Homeowners Insurance 150 Analysis of Homeowners 3 Policy (Special Form) 154 Section I Coverages 155 Section I Perils Insured Against 161 Section I Exclusions Section I Conditions 166 Section I and II Conditions 171 Summary 172 • Key Concepts and Terms 173 • Review Questions 173 • Application Questions 174 Internet Resources 175 Selected References 176 Notes 176 Case Application 172 INSIGHT 8.1: LESSON TO BE LEARNED FROM APARTMENT FIRE INSIGHT 8.2: WIND VS. WATER DEBATE STILL AWASH IN CONTROVERSY

YOUR WALLET 168

INSIGHT 8.3: HOW DO I TAKE A HOME INVENTORY AND WHY?

INSIGHT 8.4: THE BIG GAP BETWEEN REPLACEMENT COST AND ACTUAL CASH VALUE CAN EMPTY

CHAPTER 9	HOMEOWNERS INSURANCE: SECTION II
	COVERAGES 177
	Personal Liability Insurance 178
	Section II Exclusions 180
	Section II Additional Coverages 184
	Endorsements to a Homeowners Policy 186 Cost of Homeowners Insurance 190
	Summary 197 • Key Concepts and Terms 197 • Review Questions 198 Application Questions 198 • Internet Resources 199 • Selected References 200 • Notes 200
	Case Application 196
	INSIGHT 9.1: DOG BITES HURT, SO DO LAWSUITS 179
	INSIGHT 9.2: TRYING TO SAVE MONEY ON INSURANCE? PROCEED WITH CAUTION 195
	Appendix "Dos and Don'ts" When Insuring Your Home 201
CHAPTER IU	AUTO INSURANCE IN THE UNITED STATES 204
	Overview of Personal Auto Policy 205
	Part A: Liability Coverage 206
	Part B: Medical Payments Coverage 210 Part C: Uningured Metarists Coverage 212
	Part C: Uninsured Motorists Coverage 212 Part D: Coverage for Damage to Your Auto 216
	Part D: Coverage for Damage to Your Auto 216 Part E: Duties After an Accident or Loss 225
	Part F: General Provisions 225
	Insuring Motorcycles and Other Vehicles 226
	Summary 227 • Key Concepts and Terms 228 • Review Questions 228
	Application Questions 228 Internet Resources 230 Selected References 231 Notes 231
	Case Application 227
	INSIGHT 10.1: ECONOMIC DOWNTURN MAY PUSH PERCENTAGE OF UNINSURED MOTORISTS TO ALL-TIME HIGH 213
	INSIGHT 10.2: TOP 10 REASONS TO PURCHASE THE RENTAL CAR DAMAGE WAIVER 219
	INSIGHT 10.3: DRIVERS ON CELL PHONES CLOG TRAFFIC 222
CHAPTER 11	AUTO INSURANCE IN THE UNITED STATES (CONTINUED) 232
	Approaches for Compensating Auto Accident Victims 233
	Auto Insurance for High-Risk Drivers 242
	Cost of Auto Insurance 244
	Shopping for Auto Insurance 247
	Summary 252 • Key Concepts and Terms 253 • Review Questions 253
	Application Questions 253 Internet Resources 254 Selected References 254 Notes 255
	Case Application 252
	INSIGHT 11.1: CLAIMS AGAINST ANOTHER DRIVER'S INSURANCE COMPANY 237
	INSIGHT 11.2: INSURING YOUNG DRIVERS 246

INSIGHT 11.3: INCREASING THE COLLISION DEDUCTIBLE TO SAVE MONEY—SOME IMPORTANT

CONSIDERATIONS 249

CHAPTER 12 OTHER PROPERTY AND LIABILITY INSURANCE COVERAGES 256 ISO Dwelling Program 257 Mobilehome Insurance 258 Inland Marine Floaters 259 Watercraft Insurance 260 Government Property Insurance Programs 261 Title Insurance 267 Personal Umbrella Policy 267 Summary 272 Key Concepts and Terms 273 Review Questions 273 Application Questions 273 Internet Resources 274 Selected References 275 Notes 275 Case Application 271 INSIGHT 12.1: DISPELLING MYTHS ABOUT FLOOD INSURANCE 265 INSIGHT 12.2: WHAT CONSUMERS SHOULD KNOW ABOUT TITLE INSURANCE 268 INSIGHT 12.3: EXAMPLES OF CLAIMS COVERED BY PERSONAL UMBRELLA POLICY 270 COMMERCIAL PROPERTY AND LIABILITY RISKS PART FOUR CHAPTER 13 COMMERCIAL PROPERTY INSURANCE COVERAGES 278 Commercial Package Policy Building and Personal Property Coverage Form Causes-of-Loss Forms 284 Reporting Forms 285 Business Income Insurance Other Commercial Property Coverages 288 Transportation Insurance Businessowners Policy (BOP) Summary 298 Key Concepts and Terms 299 Review Questions 300 Application Questions 300 Internet Resources 301 Selected References 302 Notes 302 Case Application 298 INSIGHT 13.1: EXAMPLES OF COVERAGE UNDER THE BUILDING AND PERSONAL PROPERTY COVERAGE FORM 282 INSIGHT 13.2: ADVANTAGES OF THE CAUSES-OF-LOSS SPECIAL FORM 285 INSIGHT 13.3: EXAMPLES OF EQUIPMENT BREAKDOWN CLAIMS 291 CHAPTER 14 COMMERCIAL LIABILITY INSURANCE COVERAGES 304 General Liability Loss Exposures Commercial General Liability Policy 306 Employment-Related Practices Liability Insurance 312 Workers Compensation Insurance Commercial Auto Insurance 315 Aircraft Insurance 318

Directors and Officers Liability Insurance 323

Professional Liability Insurance 321

Commercial Umbrella Policy

Businessowners Policy

319

	Summary 324 • Key Concepts and Terms 325 • Review Questions 326 • Application Questions 326 • Internet Resources 327 • Selected References 328 • Notes 328
	Case Application 324
	INSIGHT 14.1: BASIC FACTS ABOUT WORKERS COMPENSATION 314
CHAPTER 15	CRIME INSURANCE COVERAGES AND SURETY BONDS 330
	ISO Commercial Crime Insurance Program 331 Commercial Crime Coverage Form (Loss-Sustained Form) 332
	Financial Institution Bonds 336
	Summary 340 • Key Concepts and Terms 341 • Review Questions 341 • Application Questions 342 • Internet Resources 342 • Selected References 343 • Notes 343
	Case Application 339
	INSIGHT 15.1: TAKING HOME MORE THAN A PAYCHECK: EMPLOYEE THEFT COSTS U.S. EMPLOYERS \$20 BILLION-\$40 BILLION A YEAR 333
PART FIVE	LIFE AND HEALTH RISKS 345
CHAPTER 16	FUNDAMENTALS OF LIFE INSURANCE 346 Premature Death 347
	Financial Impact of Premature Death on Different Types of Families 348 Amount of Life Insurance to Own 349 Types of Life Insurance 355 Variations of Whole Life Insurance 361
	Other Types of Life Insurance 369 Summary 372 • Key Concepts and Terms 374 • Review Questions 374 • Application Questions 374 • Internet Resources 376 • Selected References 377 • Notes 377
	Case Application 372
	INSIGHT 16.1: WHAT ACCOUNTS FOR THE LOWER LIFE EXPECTANCY IN THE UNITED STATES? 348
	Insight 16.2: Cash-Value Life Insurance as an Investment—Two Important Considerations 360
	INSIGHT 16.3: BE A SAVVY CONSUMER—FOUR LIFE INSURANCE POLICIES TO AVOID 369
CHAPTER 17	CONTRACT PROVISIONS IN LIFE INSURANCE 379 Life Insurance Contractual Provisions 380
	Dividend Options 386 Nonforfeiture Options 387
	Settlement Options 389 Additional Life Insurance Benefits 394
	Summary 399 • Key Concepts and Terms 399 • Review Questions 400 • Application Questions 400 • Internet Resources 401 • Selected References 402 • Notes 402
	Case Application 398
	INSIGHT 17 1. IS THIS DEATH & SUICIDE 382

INSIGHT 17.2: WHICH DIVIDEND OPTION IS BEST FOR YOU?

INSIGHT 17.3: WHAT IS A LIFE SETTLEMENT? EXAMPLES OF ACTUAL CASES

398

CHAPTER 18 LIFE INSURANCE PURCHASE DECISIONS 403

Determining the Cost of Life Insurance 404
Rate of Return on Saving Component 408

Rate of Return on Saving Component 40
Taxation of Life Insurance 410

Shopping for Life Insurance 411

Summary 414 • Key Concepts and Terms 415 • Review Questions 415 • Application Questions 415 • Internet Resources 416 • Selected References 416 • Notes 417

Case Application 414

INSIGHT 18.1: BE CAREFUL IN REPLACING AN EXISTING LIFE INSURANCE POLICY 407

Appendix Calculation of Life Insurance Premiums 418

CHAPTER 19 RETIREMENT PRODUCTS: ANNUITIES AND INDIVIDUAL RETIREMENT ACCOUNTS 424

Individual Annuities 425

Types of Annuities 426

Taxation of Individual Annuities 432

Individual Retirement Accounts 433

Adequacy of IRA Funds 437

Summary 440 • Key Concepts and Terms 441 • Review Questions 441
Application Questions 441 • Internet Resources 442 • Selected

References 442 Notes 442

Case Application 1 439

Case Application 2 439

INSIGHT 19.1: WHY SHOULD I CONSIDER BUYING AN IMMEDIATE ANNUITY? 427

INSIGHT 19.2: BELLS AND WHISTLES OF VARIABLE ANNUITIES 430

INSIGHT 19.3: TEN QUESTIONS TO ANSWER BEFORE YOU BUY A VARIABLE ANNUITY 433

INSIGHT 19.4: WILL YOU HAVE ENOUGH MONEY AT RETIREMENT? MONTE CARLO SIMULATIONS CAN
BE HELPFUL 438

CHAPTER 20 INDIVIDUAL HEALTH INSURANCE COVERAGES 444

Health-Care Problems in the United States 445

Individual Health Insurance Coverages 452

Major Medical Insurance 453

Health Savings Accounts 455

Long-Term Care Insurance 457

Disability-Income Insurance 460

Individual Medical Expense Contractual Provisions 463

Shopping for Individual Health Insurance 465

Summary 468 • Key Concepts and Terms 469 • Review Questions 469 • Application Questions 470 • Internet Resources 471 • Selected References 471 • Notes 472

Case Application 468

INSIGHT 20.1: NEW REPORT FINDS 86.7 MILLION AMERICANS WERE UNINSURED AT SOME POINT IN 2007–2008 449

INSIGHT 20.2: HEALTH SAVINGS ACCOUNTS ARE NOT AN EFFECTIVE WAY TO CONTROL COSTS 458

INSIGHT 20.3: PROBLEMS AND OBSTACLES IN OBTAINING HEALTH INSURANCE IN THE INDIVIDUAL MARKET 467

CHAPTER 21 EMPLOYEE BENEFITS: GROUP LIFE AND HEALTH INSURANCE COVERAGES 473

Meaning of Employee Benefits 474

Fundamentals of Group Insurance 474

Group Life Insurance Plans 477

Group Medical Expense Insurance 478

Traditional Indemnity Plans 479

Managed Care Plans 481

Consumer-Directed Health Plans 485

Recent Developments in Employer-Sponsored Health Plans 486

Group Medical Expense Contractual Provisions 488

Group Dental Insurance 492

Group Disability-Income Insurance 493

Cafeteria Plans 494

Summary 495 • Key Concepts and Terms 496 • Review Questions 497 • Application Questions 497 • Internet Resources 498 • Selected References 499 • Notes 499

Case Application 495

INSIGHT 21.1: How to GET HEALTH INSURANCE IF YOU LOSE YOUR JOB—CONSIDER
THESE SOURCES 491

CHAPTER 22 EMPLOYEE BENEFITS: QUALIFIED RETIREMENT PLANS 501

Fundamentals of Private Retirement Plans 502

Types of Qualified Retirement Plans 506

Defined-Benefit Plans 506

Defined-Contribution Plans 508

Section 401(k) Plans 509

Section 403(b) Plans 514

Profit-Sharing Plans 514

Retirement Plans for the Self-Employed 515

Simplified Employee Pension 516

SIMPLE Retirement Plans 516

Funding Agency and Funding Instruments 516

Summary 518 Key Concepts and Terms 519 Review Questions 519

Application Questions 520 Internet Resources 520 Selected

References 521 Notes 521

Case Application 517

INSIGHT 22.1: SIX COMMON 401(K) MISTAKES 510

INSIGHT 22.2: THE IMPACT OF THE RECENT FINANCIAL CRISIS ON 401(K) ACCOUNT

BALANCES 513

CHAPTER 23 SOCIAL INSURANCE PROGRAMS IN THE UNITED STATES 522

Social Insurance 523

Old-Age, Survivors, and Disability Insurance 525

Types of Benefits 526

Medicare 532

Problems and Issues 537 Unemployment Insurance 539 Workers Compensation 542 Summary 545 • Key Concepts and Terms 546 • Review Questions 546 • Application Questions 547 Internet Resources 548 Selected References 548 Notes 549 545 Case Application INSIGHT 23.1: TO WAIT OR NOT TO WAIT? OPTIONS FOR ANSWERING THE SOCIAL 528 SECURITY QUESTION INSIGHT 23.2: HOW WOULD YOU REFORM SOCIAL SECURITY? 539 THE PRIVATE INSURANCE INDUSTRY IN THE UNITED STATES 551 CHAPTER 24 TYPES OF PRIVATE INSURERS AND MARKETING SYSTEMS Overview of Private Insurance in the Financial Services Industry 553 Types of Private Insurers 554 Agents and Brokers Types of Marketing Systems 561 Group Insurance Marketing 563 Summary 564 • Key Concepts and Terms 564 • Review Questions 564 • Application Questions 565 Internet Resources 565 Selected References 566 Notes 567 Case Application 563 INSIGHT 24.1: Show ME THE MONEY—HOW MUCH DO INSURANCE AGENTS EARN? 560 CHAPTER 25 FUNCTIONAL OPERATIONS OF PRIVATE INSURERS 568 Insurance Company Operations 569 Rating and Ratemaking Underwriting 570 Production 573 Claims Settlement 574 Reinsurance 575 Alternatives to Traditional Reinsurance 580 581 Investments Other Insurance Company Functions 584 Summary 585 • Key Concepts and Terms 586 • Review Questions 586 • Application Questions 587 Internet Resources 587 Selected References 588 Notes 589 Case Application 585 INSIGHT 25.1: BE A SMART CONSUMER—CHECK YOUR INSURER'S CLAIMS RECORD 576 INSIGHT 25.2: NEW PROPOSALS FOR DEALING WITH MEGA-CATASTROPHES CHAPTER 26 FINANCIAL OPERATIONS OF PRIVATE INSURERS Property and Casualty Insurers 591 Life Insurance Companies Rate Making in Property and Casualty Insurance 598 Rate Making in Life Insurance 602

602

The Financial Crisis and Insurers

PART SIX

Summary 603 • Key Concepts and Terms 605 • Review Questions 605 • Application Questions 605 • Internet Resources 606 • Selected References 607 • Notes 607

Case Application 603

INSIGHT 26.1: How Profitable Is the Property and Casualty Insurance Industry? 596

CHAPTER 27 GOVERNMENT REGULATION OF PRIVATE INSURERS IN THE UNITED STATES 609

Reasons for Insurance Regulation 610

Historical Development of Insurance Regulation 612

Methods for Regulating Insurers 613

What Areas Are Regulated? 614

State Versus Federal Regulation 621

Current Problems and Issues in Insurance Regulation 623

Summary 628 • Key Concepts and Terms 629 • Review Questions 629 • Application Questions 629 • Internet Resources 630 • Selected References 631 • Notes 631

Case Application 628

INSIGHT 27.1: QUALITY OF INFORMATION PROVIDED TO CONSUMERS ON AUTO AND HOMEOWNERS
INSURANCE VARIES WIDELY AMONG STATE INSURANCE DEPARTMENTS 611

INSIGHT 27.2: 2008 ANNUAL RANKING OF AUTOMOBILE INSURANCE COMPLAINTS 619

Appendix A Homeowners 3 (Special Form) 633

Appendix B Personal Auto Policy 656

Appendix C Whole Life Insurance Policy with Riders 670

Glossary 688

Index 706