

**EXAM 1**

Answer all 5 questions below.

Be sure to explain your answers. Each question is worth 20 points.

1. The text lists six characteristics of an “ideally insurable risk.” Describe five of these characteristics and, for each one, explain why this characteristic is desirable. For each one, also provide an example of a risk that would NOT satisfy that characteristic.
2. One of the main goals of insurance regulation is to set up rules that ensure (to the extent possible) that insurance companies remain solvent.
  - (a) Name and explain three activities or rules that are performed by state insurance departments towards the goal of maintaining insurer solvency.
  - (b) If the state regulators are not successful and the insurance company is in serious jeopardy of going bankrupt, how are insurance customers protected, if at all?
  - (c) The Federal Insurance Office reported (in Dec. 2013) on a comprehensive study of insurance regulation in the US and how it can be improved. Discuss one way in which the report suggested improving insurance company solvency.
3. A producer? A line underwriter? A staff underwriter? Or maybe “none of the above” or “all of the above?” Which of these people is likely to be involved in each activity below? If the answer depends on circumstances, tell me what circumstances. To receive full credit you must explain your answers.
  - (a) Contact with a potential insurance client.
  - (b) Contact with the home office of the insurance company.
  - (c) Avoiding adverse selection.
  - (d) Settling a small claim by a covered insured.
  - (e) Mailing out the bill for the insurance premium.
4. For some customers of insurance, standard “off the shelf” types of insurance contracts will do the trick. For other customers, policies need to be more customized to meet the needs of the client. Give examples of at least three types of customer. For each example, explain why one type of distribution system might be better or worse than other distribution systems.

5. (a) Briefly describe each of the following types of claims adjuster:
- (i) Company adjustor
  - (ii) Independent adjustor
  - (iii) Public adjustor
- (b) Kevin has homeowner's coverage with RollTide insurance. Kevin recently called his insurance agent to report some damage. After speaking with Kevin, the agent concluded that the policy was in force at the time of the accident and that the damage was caused by a covered peril. Still, the agent told Kevin that he would not receive any insurance indemnity for his home damage. Explain why the agent might have reached this conclusion.
- (c) What is a "reservation of rights letter" and why might an insurer issue such a letter prior to adjusting a claim?

## EXAM 2

Answer all 5 questions below.

Be sure to explain your answers. Each question is worth 20 points.

1. Until the late 1800s, an employee had to sue an employer for negligence if he or she was injured while on the job. Employer liability laws were passed by many states to eliminate the use of three common defenses that were used by employers.

(a) What were these three defenses and how were they used?

(b) Under Workers Compensation laws, there are four basic classifications of disability that are used to determine benefits due to lost income. Briefly describe these four classifications and how the benefits are determined for each classification.

2. For commercial liability insurance, there is a difference between insurance policies written on an "occurrence" basis and those written on a "claims-made" basis.

(a) How does the "retroactive date" affect the premium for a claims-made policy? Would a new policy written on a claims-made basis always be less expensive than a policy written on an occurrence basis? Explain.

(b) Liability claims often have a so-called "tail risk," where there is always the risk that a large claim will be filed in the future. This creates problems with respect to accurately setting loss reserves. Would an occurrence policy or a claims-made policy do a better job at allowing an insurance company to accurately set its loss reserves? Explain.

3. Zoro Insurance has compiled the following data for its 2013 HO-Property losses. Note that one exposure unit is \$100 in coverage per year.

Total coverage:	\$1,000,000,000
Total incurred losses	\$4,800,000
Loss adjustment expenses	\$1,200,000
Other expenses	\$840,000

In addition, Zoro requires a loading for profit and contingencies of 10% of the total premium.

- (a) Based on the above data, calculate the pure premium (per exposure unit).
  - (b) Calculate the loadings for loss adjustment expenses and for other expenses.
  - (c) Adjusting for profit and contingencies, what is the total premium per exposure unit?
  - (d) What is the dollar loading for profit and contingencies?
  - (e) If Mr. Holt insures his house for \$300,000, what is his insurance premium?
4. Briefly describe each of the following and explain how it works:
- (a) Aggregate excess-of-loss reinsurance.
  - (b) Facultative reinsurance.
  - (c) A catastrophe bond.
  - (d) A reinsurance sidecar.
5. The statutory accounting statements for BAMA Insurance contain the following information for the year 2013.

Premiums earned .....	\$25,000,000
Premiums written .....	28,000,000
Underwriting expenses .....	2,800,000
Losses incurred .....	15,000,000
Loss-adjustment expenses incurred .....	3,000,000
Losses paid .....	13,000,000
Loss-adjustment expenses paid .....	2,000,000
Net investment income .....	5,000,000
Loss reserves (including adjustment expenses)	7,000,000
Paid-in capital .....	2,500,000
Unassigned Surplus .....	14,700,000

- (a) For the year 2013, determine the following ratios:
  - (i) the loss ratio, including loss adjustment expenses.
  - (ii) the expense ratio.
  - (iii) the combined ratio.
- (b) Determine BAMA's underwriting profit or loss for 2013. (Be sure to show how you derive your answer.)
- (c) On BAMA's balance sheet, describe the total for Liabilities & Surplus in 2013?