CIC | INSURANCE COMPANY OPERATIONS

STUDY GUIDE

EXAM PREP AND ANSWER KEY

- **Knowledge Checks**
- **Check-Ins**
- **Self-Quizzes**
- **Sample Exam Questions**
- **Glossary of Terms**

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STUDY GUIDE

EXAM PREP AND ANSWER KEY

This Study Guide has been prepared to enhance your learning experience. It contains all of the Check-In questions, Knowledge Checks, and Self-Quizzes contained within the course, along with an Answer Key and Glossary. Use it as a tool to help practice and assess your knowledge of the course material, but *do not* mistake it for a comprehensive "short-cut" to preparing for the final exam.

Be sure to take a look at the Appendix that follows the Answer Key in this Study Guide. It contains valuable suggestions for test preparation and study techniques, as well as some sample exam questions and a glossary of terms.

Your path to success in passing the final exam will come from your attentiveness during the course and the effort you put into preparation.

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Tools to Assess Your Knowledge

Check-Ins, Knowledge Checks,
and Self-Quizzes by Topic

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Section 1 : Executive and Financial Management

Strategic Planning

Knowledge Check

Directions: Explain the difference between strategy, strategic planning, and strategic plan. What are the questions the EMT must answer before it starts the strategic planning process? What sources of information will be needed to answer these questions?

_____

_____

The Strategic Management Process

Knowledge Check

Directions: What tools can the executive management team use to identify marketplace readiness and value propositions to determine capital structure, surplus requirements, and investment sources?

_____

_____

_____

_____

Organizational Structure

Knowledge Check

Directions: Identify and describe the primary company structures and characteristics.

1. _____

2. _____

3. _____

Culture

Knowledge Check

Directions: Describe the distinct purpose of each kind of statement: values, vision, and mission.

_____

_____

_____

_____

_____

_____

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Risk Tolerance, Risk Appetite

Knowledge Check

What is the relationship between a company's risk tolerance and risk appetite and the EMT's decision-making process?

_____

_____

_____

Other Operational Considerations

Knowledge Check

Alpha Insurance serves a large clientele of commercial farmers. The company is moving to an agricultural state to be closer to clients and which has no state taxes and offers tax incentives. It also has a favorable regulatory and judicial system. When choosing a city in that state for the main office, what are some other considerations the company might need to make?

_____

_____

_____

Financial Management

Knowledge Check

Directions: Describe the differences between STAT and GAAP accounting and in what situations each is the preferred system.

_____

_____

_____

_____

Actuarial Services

Knowledge Check

Directions: Describe the impact that IBNR reserves have on company financials.

_____

_____

_____

Calculating with Ratios

Knowledge Check

Directions: What are the three primary probability ratios?

1. _____

2. _____

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3. _____

Communications

Knowledge Check

Directions: Explain the difference between internal and external communication.

How does communication impact strategic management?

_____

_____

_____

_____

Compliance and Control

Knowledge Check

Directions: Use different types of audits to explain the importance of regulatory compliance.

_____

_____

_____

_____

Technology Management

Knowledge Check

Directions: What is strategic technology?

_____

_____

_____

_____

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Section 1: Self-Quiz

Strategic Planning

1. Strategy is a thoughtful deliberate plan of action. Select the word that best describes this process.
   - ☐ What
   - ☐ When
   - ☐ Where
   - ☐ How

Strategic Management

Directions: Circle True or False as it relates to the statement.

Marketplace evaluation includes the following:

1. Determining where gaps exist in the marketplace.

   True **False**

2. Evaluating the current stock market position.

   True **False**

3. Determining where customers are who need to be served.

   True **False**

4. Determining how needs can best be served.

   True **False**

5. Determining geographic areas with the largest populations.

   True **False**

6. Name the three management steps in the strategic management process.

   a) _____

   b) _____

   c) _____

Organizational Structure

1. Match the listed profit objectives listed below om the left with the insurance company organizational structure on the right that most closely fits the profit objective:

Profit Objective	Company Structure
A. Duty to stockholder	_____ Reciprocal
B. Duty to policyholder	_____ Stock
C. Duty to subscriber	_____ Mutual

2. Of the stock, mutual, and reciprocal structures, which most closely matches each characteristic?

Mutual	Reciprocal	Stock

The easiest access to additional funds _____

Has the history of long term-operations _____

Is most capable of merging or acquiring another carrier _____

Has the highest pressure on day-to-day operations to add top-line growth _____

Is the easiest to capitalize _____

Has an objective to operate as close to its cost as possible _____

3. Name three primary obligations of every member of a company board of directors.

a) _____

b) _____

c) _____

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Culture

1. Name two common approaches to the construction of a company's culture.

   a) _____

   b) _____

2. Match the correct statement type to its listed definition.

Statement	Definition
A. Mission	_____ What we want to be when we grow up.
B. Vision	_____ Core purpose and goals, in the here and now
C. Values	_____ Commonly held core, the "who"

Risk Tolerance, Risk Appetite

Directions: Circle True or False.

1. A company with a high risk tolerance is known as being risk averse.

   True **False**

2. Risk appetite varies little by line of business or geographic territory.

   True **False**

3. A company's risk tolerance needs to be broad enough to succeed in target markets.

   True **False**

4. Risk appetite is the most risk a company will accept while still striving to reach strategic and tactical plans.

   True **False**

5. Use of management controls has no effect on risk appetite integrity.

   True **False**

6. Name two ways a company can create spread of risk.

   a) _____

   b) _____

7. Risk appetite determines several key company decisions on location and lines of business. List five of those decisions.

   a) _____

   b) _____

   c) _____

   d) _____

   e) _____

Other Operational Considerations

1. Carriers need to decide if they will operate in a centralized or decentralized structure. Each approach has pros and cons. Select the structure that applies to the following consequences:

	Centralized	Decentralized
High risk of bureaucracy		
Procedural differences		
Audit/compliance issues		
Slow response to problems		
Local focus only		
Higher risk actions won't meet goals		

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2. Name three environments that a carrier needs to address in its strategic thinking.

   a) _____

   b) _____

   c) _____

3. A carrier needs to assess available resources when deciding on a location in which to operate. For each resource listed below, indicate with a Yes or No if it is a resource necessary to operate.

Directions: Circle Yes or No.

Available personnel

Yes **No**

Nearby restaurants

Yes **No**

Available physical facilities

Yes **No**

Public transportation

Yes **No**

Temperate climate

Yes **No**

Technological infrastructure

Yes **No**

Financial Management

1. Name the two financial items that any basic accounting structure tracks.

   a) _____

   b) _____

Directions: Circle True or False.

1. GAAP accounting is required by the National Association of Insurance Commissioners.

True **False**

2. GAAP accounting is required for reports of publicly traded companies.

True **False**

3. STAT accounting is a system unique to insurance accounting.

True **False**

4. GAAP accounting allows investors and shareholders to make realistic financial decisions.

True **False**

5. STAT accounting allows for liberal financial reports.

True **False**

6. STAT accounting focuses on consumer protection.

True **False**

7. GAAP accounting is on an "ongoing operation" basis.

True **False**

8. STAT accounting was developed based on three pillars. Name them.

a) _____

b) _____

c) _____

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Actuarial Services

1. Name the two key responsibilities of an actuary in an insurance company.

   a) _____

   b) _____

Directions: Select True or False.

1. Under-reserving can make a company's results look worse.

   True **False**

2. Reserves are funds set aside to pay future benefits for obligations.

   True **False**

3. Case reserves are estimates of what a claim will cost based on information available at the time the reserve is set.

   True **False**

4. ALAE (allocated loss adjustment expenses) are not included in case reserves.

   True **False**

5. Which is most accurate when describing "ultimate loss":

   - ☐ Represents the amount the company believes it will ultimately pay for a loss
   - ☐ Represents the largest loss over the past year for a company
   - ☐ Represents an easy actuarial calculation using current case reserves
   - ☐ Represents an estimated ultimate loss which is the same for all lines of business

Directions: Circle True or False related to the following statement.

Loss triangles are used to:

1. Compute prior claims value changes period-to-period

   True **False**

2. Calculate anticipated future changes in claims value

   True **False**

3. Examine a claim for only one year

True **False**

4. Examine only future activities without regard to historic data

True **False**

Directions: Circle True or False.

1. Reserves are usually the largest liabilities on a company balance sheet.

True **False**

2. Reserves differ for different products.

True **False**

3. Reserves for property losses usually last longer until closed.

True **False**

4. Reserves for workers' compensation losses are referred to as "long-tail" claims.

True **False**

5. Reserves have no impact on rates charged for future policies.

True **False**

6. High reserve amounts mean a company needs less surplus to operate.

True **False**

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Calculating with Ratios

1. Profitability ratios are based on comparing money going out to money coming in. Below, match the income or expense item on the left to the correct definition on the right.

Income or expense	Definition
_____ Written premium	**A.** Premium collected but not allowed on the books
_____ Earned premium	**B.** Adjusting expenses assigned to a particular claim
_____ ALAE	**C.** Expense considered claim department operation expense
_____ UW expense	**D.** Total of all premium on all in-force policies
_____ ULAE	**E.** General operational expenses of the company
_____ Unearned premium	**F.** Premium collected and on books to meet obligations

Directions: Circle True or False

1. Ratios greater than 1.0: 1.0 indicate a profitable result.

True **False**

2. One number used in a profit ratio is always an "expense" number.

True **False**

3. Profit ratios can be based on either written or earned premium.

True **False**

Communications

Directions: Circle True or False

1. Communication is a monologue, not a dialogue.

True **False**

2. Listening is a very important part of the communication process.

True **False**

3. The EMT needs to receive feedback on a message it presents to others.

True **False**

4. Communication by an insurance company is external only.

True **False**

5. Internal communication plays an active part in communicating culture and brand to all employees.

True **False**

Compliance and Control

1. There are two primary purposes for insurance regulation. Name them.

a) _____

b) _____

2. Insurance company audits can be conducted by the insurance company or by an external organization. Internal audits are more likely to measure if the carrier is performing within the prescribed limits. Audits conducted by external organization tend to focus more on the financial status of the carrier. Below is a list of topics commonly subject to audit. Indicate if the topic is subject to a financial audit or a performance audit.

TOPIC	FINANCIAL	PERFORMANCE
Surplus		
Market conduct		
Licensing		
Reserves		
Accounting reports		
Reinsurance		
Internal compliance/ control		

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Technology Management

1. In recent years technology has become a more important facet of insurance company operations. Technology advancements have become the expected by the public and have become a "ticket to play" for insurance carriers. Computer assistance can be recognized as serving one of two purposes—either base services or strategic services. Listed below on the left are several services carriers look to technology to handle. For each service, indicate if this is a base or strategic service.

SERVICE	BASE	STRATEGIC
Working environment		
User interface		
Website		
Real time rating		
Payroll/HR		
Third-party services interface		
Policy processing		
Direct Billing/EFT		
Accounting/finance		
Claims		
ePolicy delivery		
Policyholder self service		
Billing		
Building value estimates		
Online Underwriting		
Loss Control Services		
Data Warehouse		

2. Technology systems are those performing in three major areas for insurance carriers. Name these three areas.

   a) _____

   b) _____

   c) _____

3. Implementation of automation systems fall into two techniques. Name these two techniques.

   a) _____

   b) _____

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Section 2: Product Development

Developing a Tactical Plan

Knowledge Check

Directions: Read the excerpt from the EMT's strategic plan. Then select from the list which actions the product development team will pursue. Explain why you chose those actions.

EMT's Strategic Plan Excerpt: Develop and price a product that will better position the company in the Southwest region.

- **a)** Review federal and state rules and regulations in new geographical area.
- **b)** Design a marketing campaign to promote the new product.
- **c)** Meet with actuaries and underwriters to see if risk appetite of EMT for product matches the rates set.
- **d)** Locate personnel will special knowledge in the new product sector.
- **e)** Keep forms the same without reviewing for possible changes.

_____

_____

_____

_____

Product Development

Knowledge Check

Directions: When an insurance company contemplates development of proprietary forms, name the steps they will engage in to develop that product.

_____

_____

_____

_____

Product Pricing

Knowledge Check

When a new product has acquired a claims history, what information does the product development team need from actuaries and how do they get it?

_____

_____

_____

_____

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Section 2: Self-Quiz

Developing a Tactical Plan

Directions: Fill in the blank

A tactical plan answers _____the strategic plan will be achieved.

Directions: Name three factors that affect the decisions on the type of products developed by the product development department.

a) _____

b) _____

c) _____

Product Development

Directions: Circle True or False

The product development team is responsible for establishing and monitoring pricing.

True **False**

Directions: Indicate the correct sequence of the steps in the product development process by numbering the items below.

_____ Implement or launch the product

_____ Conduct a feasibility study

_____ Monitor and modify the product

_____ Develop a concept or idea

_____ Design and develop the product

Directions: Fill in the blank with the term that matches the definition.

_____ is simply aggregating all of the premiums for a specific line of business.

Directions: Select the statement that best describes the roles and responsibilities of product development.

- ☐ Always its own department and is responsible for development of contracts only, but will coordinate with other departments on pricing and distribution.
- ☐ May be its own department or a part of another department and the assigned responsibilities will vary from company to company.
- ☐ Part of the actuarial department as the actuarial department has to determine the price of the newly developed contracts.
- ☐ It has its own department with assigned responsibilities to develop contracts, but Underwriting manages the product.

Directions: Indicate which of the following is included in the development of a new product.

1. A new product in an existing state

Included **Not Included**

2. A new line of business for both existing and new states

Included **Not Included**

3. A new product within an existing line of business in existing states

Included **Not Included**

4. A new product in a new state

Included **Not Included**

5. An existing line of business approved for use in a new state

Included **Not Included**

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Directions: Which of the following is an accurate statement about the review of product performance?

- ☐ Once launched, a review of the rates should be conducted after five years to analyze the profitability of a product.
- ☐ If the review process indicates a product is performing profitably, there should be a rate increase consideration.
- ☐ The review process includes monitoring the competition, customer value, and the frequency of claims.
- ☐ Once launched, there is no need to change distribution compensation.

Directions: Indicate which statements are true in regard to rate adjustments. Circle True or False.

1. Rate increases impact all policyholders equally.

True **False**

2. Both increases and decreases in rates impact the retention ratio.

True **False**

3. Rate decreases on existing business result in a lower retention rate.

True **False**

4. Rate increases on existing business may create adverse selection.

True **False**

5. Rate decreases on existing business result in a reduction on the average premium per account.

True **False**

Product Pricing

Directions: Identify whether or not there is a possible need for modification or enhancements of a product in regard to each of the following. Circle Yes or No.

1. Policy interpretation mirrors the intent of the product.

Yes **No**

2. Desire to create a competitive advantage

Yes **No**

3. Data identifies emerging trends for certain industries.

Yes **No**

4. Changes in laws or statutes

Yes **No**

5. Other than insurance, changes in regulations of other industries

Yes **No**

6. Court decisions expand liability beyond the intent of the product.

Yes **No**

7. Claims demonstrate severity and frequency are the same as forecasted.

Yes **No**

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Section 3: Underwriting

Underwriting Resources

Knowledge Check

Directions: List the tools and resources that are available to the underwriting department to identify appropriate risks and rewards and align or realign company targets to the tactical plan.

_____

_____

_____

_____

Department Structure

Knowledge Check

Directions: Name three considerations when structuring or restructuring the underwriting department.

1. _____

2. _____

3. _____

Market Cycles

Knowledge Check

Directions: Name the two types of market cycles and list three characteristics of each.

1. _____

   a) _____

   b) _____

   c) _____

2. _____

   a) _____

   b) _____

   c) _____

Reinsurance

Knowledge Check

According to the tactical plan, the underwriting department has identified a need for new product support and entrance into a new market that is prone to wildfires. What kind of reinsurance would you need. Why?

_____

_____

_____

_____

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Loss Control

Knowledge Check

Directions: Make a case for why loss control can help in these two situations:

1. A policy covering a remote property in rough terrain is up for renewal. The property has not been viewed in a few years. How can loss control personnel or tools help in this scenario?

_____

_____

_____

_____

2. Several recommendations to lower premium have been made to lessen risk at a commercial property location. How can loss control personnel provide support in this scenario?

_____

_____

_____

_____

Premium Audit

Knowledge Check

Why are premium audits important? Give a justification for audits for medium and large accounts. How can these audits be carried out in a cost-effective way?

Underwriting Technology

Knowledge Check

Directions: Describe the reasons and tasks necessary for effective software and hardware systems technology that can handle different kinds of data interfaces within the underwriting department and between other databases, such as that of a reinsurer.

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Section 3: Self-Quiz

The Tactical Plan and the Underwriting Process

Directions: The six steps to the underwriting process are shown below in random order. Sequentially number the steps in their correct order, beginning with step 1.

	Policy issuance
	Additional information request
	Follow-up
	Initial review
	Pricing
	Coverage determination

Directions: Use the following terms to fill in the blanks.

acceptability	**are not**
accuracy	**certain regulators may not**
all regulators do not	**experience factor found in the underwriting guidelines**
are	**merits of the risk, program, or agency segmentation**

1. Applications from agents _____ the only resource needed to complete the underwriting process.

2. Underwriters make the initial review of the insurance application and supporting documents to determine the _____ of a submission.

3. Discretionary pricing refers to the ability of an individual underwriter to credit or debit an account or a portion of an account based on the _____.

4. _____ allow policies to be delivered electronically.

Directions: Match the type of business with the characteristics of renewal underwriting for that type of business.

A. Personal lines and small commercial lines accounts	_____ are risks where the exposure base changes are updated each year. This is a process in which an agent gives updated information to the underwriter and modifications are made to the renewal policy..
B. Large accounts	_____ demands a more hands-on approach. Often the renewal underwriting review is as rigorous as new business.
C. Middle-market accounts	_____ are often referred to as commodity lines. For these accounts, the renewal underwriting process is as automated as possible.

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Underwriting Resources

Directions: Circle True or False.

1. There are many resources available to underwriters, and the ones selected depend on the types of reviews they need for individual accounts.

True **False**

2. Similar to commercial lines, the underwriting decision-making process for personal and small commercial lines is less objective, thus not lending itself to automation.

True **False**

3. The agent's personal knowledge of an account is a robust source of underwriting information for commercial lines.

True **False**

4. Deeds of purchase, CLUE reports, and data on home construction and repair are all examples of resources used in personal lines underwriting.

True **False**

Directions: Match the following terms with the descriptions:

A. Artificial intelligence **B.** Predictive analytics **C.** Telematics	_____ encompass a variety of statistical techniques, including data mining, modeling, and machine learning that analyze current and historical facts to make assessments about future or otherwise unknown events.
	_____ is defined as the theory and development of computer systems able to perform tasks that normally require human intelligence, such as visual perception, speech recognition, decision-making, and translation between languages.
	_____ is a tool that enables a granular examination of personal lines accounts, letting underwriters zero-in on individual risks. Examples include vehicle tracking devices and devices in homes to provide real-time information.

Directions: For each of the following sources of information, indicate whether they are predominately used in commercial lines or personal lines by putting a C or P after the source of information.

1. CLUE reports _____
2. Premium audits _____
3. Detailed financial statements _____
4. Permit data on home construction and repair _____
5. Tools such as Best Hazard Index, FC&S, and NAICS codes _____

Department Structure

1. Which four of the following is the correct list of specific criteria used to structure an underwriting department?
   - ☐ Company size
   - ☐ Geographic territory
   - ☐ Account types
   - ☐ Structural evolution
   - ☐ Company charter
   - ☐ Legal environment
   - ☐ Distribution force
   - ☐ Investment return

Directions: Indicate with a Yes or No which of the following entities may be granted underwriting authority.

1. Policyholders

Yes **No**

2. Independent agency personnel

Yes **No**

3. Exclusive, direct, captive agents

Yes **No**

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4. Marketing representatives

Yes **No**

5. Policyholder's legal counsel

Yes **No**

6. Managing general agents (MGA)

Yes **No**

7. Risk specialist/loss control specialist

Yes **No**

Directions: Circle True or False.

1. Underwriters employed by small insurance companies are typically generalists out of necessity.

True **False**

2. Large insurance companies may have the luxury of designating underwriters as specialists in their various market segments and geographical territories.

True **False**

3. Geographical territory has no influence on the types of experience and expertise required within an underwriting department.

True **False**

4. Underwriting of commercial lines is the same whether it be small commercial, middle-market, or large commercial accounts.

True **False**

5. As a company grows and expands, the underwriting department needs to change.

True **False**

Market Cycles

Directions: Indicate with a Yes or No which of the following factors influence the insurance market cycle.

1. Desire for top-line revenue growth

Yes **No**

2. Focus on bottom-line profits

Yes **No**

3. Success or failure of peer companies within the industry

Yes **No**

4. Catastrophic losses

Yes **No**

5. Reinsurance availability

Yes **No**

6. Economic influences such as interest rates, inflation, and stock market trends

Yes **No**

Directions: For each of the following, indicate which market cycle it best describes—Hard or Soft.

1. Companies begin to raise rates.

Hard **Soft**

2. Companies restrict coverage availability.

Hard **Soft**

3. Companies are in a growth mode.

Hard **Soft**

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4. Companies relax their underwriting guidelines.

Hard **Soft**

5. Companies roll out new products and coverages.

Hard **Soft**

6. Companies create a need for the excess and surplus markets.

Hard **Soft**

Directions: Use the following terms to fill in the blanks.

actuarially sound	**growth goals**
bottom-line profitability	**increased**
coverage hunters	**may not**
catastrophic losses only	**price shoppers**
day-to-day losses	**will always**

1. Pricing integrity refers to a company's adherence to _____ premiums despite outside influences.

2. "Attritional" losses refer to a company's _____.

3. During a hard market, companies maintain a conservative posture until _____ is achieved.

4. During a soft market, consumers become _____ first.

5. Due to the various factors influencing the market cycles, it should be noted that commercial and personal lines market cycles _____ coincide.

Reinsurance

Directions: Match the following seven reinsurance terms with their appropriate definition:

Terms	Definitions
A. Reinsurance **B.** Ceding company **C.** Reinsurer **D.** Treaty reinsurance **E.** Facultative reinsurance **F.** Pro rata reinsurance **G.** Excess of loss reinsurance	_____ A ceding company and a reinsurer enter into an agreement for certain classes of business that are to be ceded. In the agreement, the reinsurer agrees to accept all risks that qualify under the treaty.
	_____ An agreement between an insured and reinsurer to share insurance based on an agreed percentage.
	_____ This reinsurance is written on a risk-by-risk basis. Each exposure that a company wishes to reinsure is offered to the reinsurer as a single transaction.
	_____ A contractual arrangement in which one insurance company agrees to insure the assumed liabilities of another insurance company.
	_____ A ceding company agrees to retain a certain amount of liability for losses. This liability is known as the company's retention. The reinsurer agrees to indemnify the ceding company for all losses exceeding the retention up to the limit in the agreement.
	_____ An insurance company that accepts the liabilities from a ceding company for a stated premium.
	_____ The primary insurance company that is transferring part of its liability to another insurance company.

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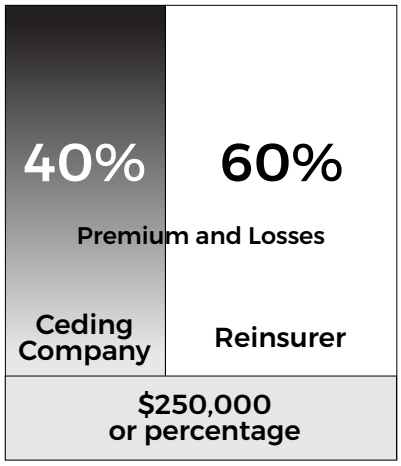
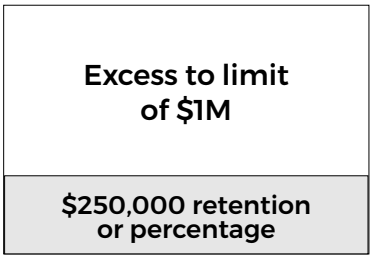
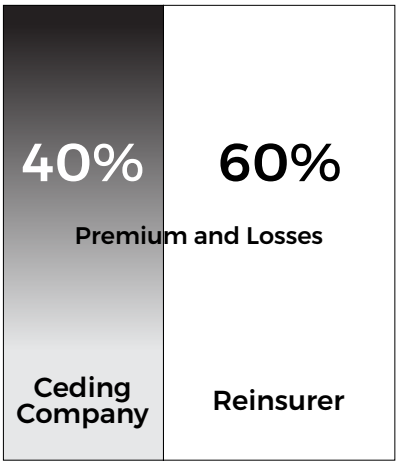
Directions: The three illustrations shown below represent pro rata quota share, pro rata surplus share, and excess of loss reinsurance. Identify each by placing the appropriate description under each illustration.







Directions: Circle True or False.

1. A company may want to venture into new lines of business or unfamiliar territories. Because they typically deal in many geographical territories and lines of business, reinsurers can provide guidance and counsel.

   True **False**

2. The choice of whether to use treaty or facultative reinsurance is determined by the insurance company's size.

   True **False**

3. Securing the proper reinsurance may allow a company to increase its ability to write larger lines of business than it would otherwise be able or willing to do.

   True **False**

4. Reinsurance allows a company to share risk until the premium volume reaches a certain point or the ceding company gains confidence in unfamiliar coverages.

   True **False**

5. Reinsurance can be purchased to alleviate the potential consequences of hurricanes, earthquakes, tornadoes, and wildfires.

True **False**

6. Apex Insurance Company has an excellent portfolio of coverages and experienced underwriters. Therefore, they do not need reinsurance.

True **False**

7. Sometimes a company experiences wide variations in financial results from year to year that can create regulatory, shareholder/policyholder, or rating agency problems. Reinsurance can be used to smooth these fluctuations.

True **False**

Loss Control

Directions: Select the correct statement from each of the following groups of three.

- ☐ The loss control process is necessary on the review of every commercial risk.
- ☐ Loss control personnel perform risk assessments and underwriting surveys that enhance the underwriting process.
- ☐ The loss control department must sign off on risks of a predetermined premium volume.
- ☐ The purpose of the assessment or survey is to comply with the state department of insurance regulations.
- ☐ The purpose of the assessment or survey is to satisfy reinsurance requirements.
- ☐ The purpose of the assessment or survey is to help facilitate an underwriter's risk selection by helping to determine the insurability of a risk.
- ☐ Some loss control recommendations may require mandatory compliance, while others may be optional.
- ☐ All loss control recommendations are mandatory.
- ☐ All loss control recommendations are optional.
- ☐ All loss control services are automatically provided to policyholders without a fee.
- ☐ Loss control services may be provided with or without a fee structure.
- ☐ Companies typically charge for each and every loss control service provided.

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Premium Audit

Directions: Select the correct word or phrase to make the following statements correct.

60 to 90 days	**description of the insured's scope of operation**
90 to 120 days	**estimated premium basis**
actual exposure	**insured's operation**
annual	**owe an additional premium**
be owed a return premium	**semi-annual**
coverage territory	

1. The purpose of a premium audit is to ascertain the _____ so the insurance company can collect the premium developed by that exposure.

2. These are two critical components of the proper pricing of a risk—classification and _____.

3. When a policy is written, a classification is developed based on the _____.

4. Generally, the audit period for most policies is _____.

5. The final audit is usually completed within _____ after a policy expires.

6. If the exposure base is higher than estimated, the insured will _____ for the audit period.

Directions: Circle True or False.

1. General liability uses a number of different exposure bases, depending on the nature of the risk.

True **False**

2. Advisory rating services provide the premium bases to accomplish the goal of collecting the appropriate premium for exposure.

True **False**

3. The *Commercial Lines Manual* provides direction on how to apply the exposure bases.

True **False**

4. For most general liability exposures, the rating is on a per $100 of exposure basis.

True **False**

5. Remuneration means gross sales.

True **False**

6. The Business Auto Policy has a number of exposures that are rated on an estimated basis, requiring a post-policy period audit.

True **False**

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Underwriting Technology

Directions: Match the following underwriting technology component terms with the appropriate description in the table.

Component Terms	Descriptions
A. Submission intake **B.** "Upload/ download" **C.** Office of Foreign Assets Control **D.** Rating **E.** Quoting **F.** Binding/ policy issuance **G.** Clearance	_____ The means by which a proposed product and premium are offered to a customer.
	_____ A division of the US Treasury which enforces economic and trade sanctions applicable to other countries.
	_____ The transaction process begins with the application data being entered into a policy management system. This data includes basic information such as the name and address of the insured, information about the exposures to be covered, and the types of coverage requested.
	_____ Once a quote has been accepted, a policy management system delivers the supporting documentation which may include a binder confirming coverage and a policy which includes all of the details of coverage
	_____ Provides direct transfer of submission data from an agency management system into a carrier's system. This data is captured in the carrier's policy management system and the resulting output is downloaded electronically back into the agent's system.
	_____ Prospective clients may apply for insurance with multiple producers. To avoid providing multiple quotes which may be inconsistent or even competitive with one another and belong to different producers, policy management systems review applications when they are received to determine whether they were previously submitted by another producer.
	_____ This process involves collecting application data and applying the rating rules for each product to calculate a price.

Directions: Rank in the correct order from highest to lowest, the lines of business which have the most to least amount of "pass-through" ability due to technology.

Ranking	Lines of Business (shown in random order)
	Small Commercial
	Personal Auto
	Large Commercial

Underwriting Technology

Directions: Choose the underwriting policy management term/tool that matches the description.

Underwriting Management Terms/Tools	Terms/Tools Descriptions
A. Predictive modeling **B.** Underwriting warnings **C.** Internal data **D.** External data **E.** Underwriting controls/ governance	_____ Distinct from underwriting guidance, many systems also impose limits on what underwriters are permitted to do, in order to protect a company both from underwriting risk that is outside of the company's appetite and to ensure regulatory compliance.
	_____ Some systems are programmed to trigger a notice to an underwriter based on a set of predetermined business rules.
	_____ As part of the underwriting process, data from other functions within a company is usually collected for review.
	_____ Data is used in the underwriting process to confirm the information in the application or to supplement the application with additional information to better understand the exposure.
	_____ Formulas that adjust for individual risk characteristics that are not reflected in the basic rating structure.

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Section 4: Claims Management

Claims' Tactical Plan

Knowledge Check

Directions: Identify the different kinds of personnel and specialty units needed by the claims department to carry out the tactical plan.

_____

_____

_____

_____

Steps in the Claims Process and Its Strategic Plan

Knowledge Check

Directions: Name the five steps in the claims process. Write a sentence about each step and its importance.

1. _____

_____

2. _____

_____

3. _____

_____

4. _____

_____

5. _____

_____

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Subrogation and Salvage

Knowledge Check

Directions: In your own words, define the terms subrogation and salvage, and how and when they come into play.

_____

_____

_____

_____

Special Investigations Unit

Knowledge Check

Directions: You are a part of a SIU (special investigation unit) and have been assigned a suspected fraud case. What will you do first? Second? Third?

1. _____

2. _____

3. _____

Litigation Management

Knowledge Check

Directions: Make a case for an insurance company having its own litigation management team.

_____

_____

_____

_____

Bad Faith

Knowledge Check

Directions: What is the impact of bad faith actions carried out by a claims department? How will it affect the insurance company and its strategic plan?

_____

_____

_____

_____

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Catastrophe Planning

Knowledge Check

Directions: What is a CAT plan and why is it important especially to the claims department when a disaster happens?.

_____

_____

_____

_____

Claims Technology

Knowledge Check

Directions: How does claims technology streamline what the department can do in these areas: input, resources, case type and load, storage and cross-referencing, settlement, and fraud detection.

_____

_____

_____

_____

Section 4: Self-Quiz

Claims' Tactical Plan

Directions: There are several considerations the claims department makes regarding technology. List 3 areas technology will be utilized within the claims department.

1. _____

2. _____

3. _____

Directions: Circle True or False related to the following statement.

Claims are only handled internally within the insurance company.

True **False**

Steps in the Claims Process and its Strategic Plan

Directions: Select the correct sequence of the five steps in the claims process:

- ☐ Reserve, investigate, verify, estimate, resolve
- ☐ Report, interpret, verify, evaluate, resolve
- ☐ Report, investigate, verify, evaluate, resolve
- ☐ Reserve, interpret, verify, estimate, resolve

Directions: There are several different people that can report a loss to an insurance company. Name three

1. _____

2. _____

3. _____

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Directions: Identify each of the following statements as True or False

1. Duty to indemnify is broader than duty to defend.

True **False**

2. Defense may be provided for an insured even when the insured is not legally liable.

True **False**

3. An investigation to determine coverage may require resources that involve the services of others, such as a forensic accountant or consulting engineer.

True **False**

4. The established case reserve, including the allocated loss adjustment expense (ALAE), may be impacted by the information discovered during the investigation.

True **False**

Directions: Select the statement that best describes the concept of joint and several liability.

- ☐ Liability that may be apportioned either among two or more parties or to only one of a few select members of the group, at the adversary's discretion.
- ☐ Liability that may be apportioned jointly or separately by policy when a policyholder has more than one policy with different carriers.
- ☐ Liability that is jointly defended by more than one insurance company when several parties file a lawsuit against one or more policyholders.
- ☐ Several persons may either jointly file a lawsuit or file separate lawsuits against the insured for bodily injury or property damage that occurred.

Subrogation and Salvage

Directions: Fill in the blanks in the following statement using the terms provided.

litigation	**paid**
mitigation	**percentage**
owed	**recovery**

1. Success of the subrogation unit is generally measured as a _____ of the losses _____ that are subject to _____.

Directions: Identify each of the following statements as True or False.

1. A subrogation clause grants the right to the insurance company to collect from an at-fault party the money the insurance company paid to or on behalf of the policyholder, unless the policyholder has waived their right of recovery, which is usually required to be waived prior to a loss.

True **False**

2. The condition/requirement for an insured to waive their subrogation rights is the same in all liability policies.

True **False**

3. Property that has not been totally lost or destroyed and which retains some salvage value will apply directly to that claim's loss adjustment calculation.

True **False**

4. Insurance companies may have an option, according to loss conditions, to take all or part of damaged property as salvage.

True **False**

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Special Investigations Unit

Directions: Fill in the blanks using the terms provided.

covered	**not covered**
hard	**payment**
legitimate	**soft**
misrepresented	**waivers**

1. _____ fraud occurs when an insured or claimant deliberately plans or create a loss that is _____ by an insurance policy in order to receive _____.

2. _____ fraud occurs when the insured or claimant exaggerates an otherwise _____ claim.

Directions: Circle True or False related to the following statements.

1. A SIU (special investigation unit) is comprised of law enforcement officers who have sophisticated interrogation skills.

True **False**

2. With sophisticated technologies and skilled investigators, the SIU works to identify, prevent, and deter suspect claims.

True **False**

3. All state departments require insurance companies to have a formal SIU with protocols in place for sharing fraud information with other insurance companies.

True **False**

Litigation Management

Directions: Select the accurate statements regarding litigation.

- ☐ If the adjuster makes the decision to litigate, all responsibility and control of the claim file is given to the defense counsel except when outside counsel is used.
- ☐ Outside counsel have greater control of expenses, compared to inside counsel, and are given cases that are easily billed by the hour and resolved quickly.
- ☐ Inside counsel have less control of expenses as they have taken on all claims management responsibility for handling complex and time-consuming cases that have been abandoned by the adjuster.
- ☐ The adjuster makes the decision as to when to settle, when to litigate, and/or when to make use of an alternative dispute resolution, and maintains the control of the file.

Bad Faith

Directions: Check all that apply to the following statements related to bad faith.

- ☐ Established in common law.
- ☐ Often involves an insurer's failure to pay the insured's claim or the claim brought by a third party
- ☐ Use of an improper standard to deny a claim
- ☐ Honesty in a party's conduct during the contract or agreement

Catastrophe Planning

Directions: Check all the factors that impact the insurance company's CAT plans.

- ☐ The type of business written
- ☐ The culture of the insurance company
- ☐ The size of insurance company
- ☐ The type of claims the insurance company expects to receive
- ☐ The number of employees in the underwriting department
- ☐ The geographic location of insurance company

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Claims Technology

Directions: Circle True or False related to the following statements.

1. Claims systems typically mirror the underwriting process.

True **False**

2. The claims system enables the company to manage the process from first notice to settlement.

True **False**

3. Claims systems are established to respond to liability claims only.

True **False**

Directions: List three examples of documents that would be collected, stored, and managed as part of the claim process.

1) _____

2) _____

3) _____

Directions: Match the claims transaction on the left to its description on the right.

A. Case reserve	_____ The amount paid
B. Paid loss	_____ Expenses that are directly associated with an individual claim
C. Allocated loss adjustment expense	_____ Amount the insurance company puts aside for a claim

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Section 5: Product Distribution

Corporate Marketing

Knowledge Check

Directions: What are five important branding factors creatives consider when building a brand? How are these determined in the development process? Which media avenues do you think best support brand awareness?

1. _____

2. _____

3. _____

4. _____

5. _____

_____

_____

_____

_____

Distribution

Knowledge Check

Directions: Name the four different distribution methods. Next, choose two and defend how you would combine them together to maximize benefits and manage cost, control, market penetration, and scalability.

1. _____

2. _____

3. _____

4. _____

_____

_____

_____

_____

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Relationship Management

Knowledge Check

Directions: What makes a particular agency a good prospect for an insurance company to partner with in terms of product distribution? Name at least three important aspects of a prospective independent agency.

1. _____

2. _____

3. _____

4. _____

Policyholder Services

Knowledge Check

Directions: How do centralized services support agencies in giving access and good service to clients? How can they hinder access and service?

_____

_____

_____

_____

Technology

Knowledge Check

Directions: Compare and contrast the kinds of technology used by the marketing department to the technologies used by the sales group.

_____

_____

_____

_____

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Section 5: Self-Quiz

Corporate Marketing and Sales Management

Directions: Name one of the first questions to be answered for sales management?

1. _____

Corporate Marketing

Directions: Circle True or False related to the following statement.

2. Brand identity is the collection of the elements that make the company the same in the marketplace.

True **False**

Directions: What is the term used to describe the sharing of advertising Cody's with its agency distribution network?

3. _____

Distribution

4. Select the factors considered when deciding the methods or methods of distribution. Select all that apply.
   - ☐ Control
   - ☐ Loss ratio
   - ☐ Timely accounting practices
   - ☐ Competent management
   - ☐ Desired market penetration

5. Some companies may use multiple distribution methods including independent agents, exclusive agents, and online sales.

True **False**

Relationship Management

1. An insurance company's expectation of an agency is for the agency's track record to indicate:
   - ☐ profitable growth, high retention rates, and low loss ratios
   - ☐ slow growth, low retention rates, and low loss ratios
   - ☐ fast growth, low retention rates, and low loss ratios
   - ☐ profitable growth, low hit ratio, and low retention

2. Select the most accurate statement that includes some of an insurance company's expectations of an agency.
   - ☐ Assertive producers who are more focused on sales than retention
   - ☐ Producers and staff that effectively use automation even though they have a low close ratio
   - ☐ Assertive and productive producers and a professional staff who have knowledge of the insurance company's appetite and who effectively use automation
   - ☐ Professional staff more focused on sales than on front-line underwriting and retention

3. Select the statement that most accurately describes the agency appointment process.
   - ☐ In order to meet production goals, appoint as many agents as possible to saturate the territory, and if asked, provide assistance.
   - ☐ In order to meet production goals, appoint only those agents that are willing to do book rollovers and contact the assigned underwriters to provide assistance to that agency.
   - ☐ After conducting a territory analysis, identify and contact the appropriate number of qualified agents and assist with the appointment process.
   - ☐ Identify the number of agents needed to achieve territory saturation and appoint an agency that has the number of needed producers to achieve that goal.

4. Which of the following is true regarding maintaining an agency's relationship?
   - ☐ If an appointed agency has problems/issues with the insurance company, always side with the agency principals in order to maintain the relationship.
   - ☐ If an underwriter brings up an issue about an agent, don't get involved so as not to jeopardize the marketing rep's relationship with the agency.
   - ☐ After the appointment process, don't bring up sales goals to the agency principals so as not to offend them.
   - ☐ After the appointment process, meet with the agency principals and staff to discuss quoting, issuance, and product challenges.

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Directions: Circle True or False related to the following statements in regard to an evaluation of an agency.

1. If an agency does not meet production goals, identify the cause of the issue, help agents identify new sources of business, and offer sales and marketing assistance.

True **False**

2. If an agency has a poor loss ratio, rehabilitation may include re-underwriting all or a portion of the agent's book of business.

True **False**

3. If an agency has a low loss ratio, identify factors that may have contributed and offer risk management techniques.

True **False**

4. If a review indicates an agency has low retention, recommend termination.

True **False**

5. Termination of an agency is recommended only when an agency fails to meet production goals.

True **False**

Policyholder Services

Directions: Indicate which of the following are typically included as services provided to agents and brokers of an insurance company.

1. Access to insurance company manuals, quick reference guides, appetite guides, insurance company specific marketing and sales materials

Included **Not Included**

2. Access to the agency's book of business and production reports; access to the agent's policyholder accounts, such as policies, billing, certain types of claim information, etc.

Included **Not Included**

3. Access to other agencies' books of business, policyholder information, etc.

Included **Not Included**

4. Access to mobile apps

Included **Not Included**

5. Certain types of education and training

Included **Not Included**

Directions: Check which of the following is an accurate statement in regard to electronic interfaces?

- ☐ Electronic billing and electronic fund transfers for premium payment are a mandatory policyholder requirement.
- ☐ Many insurance companies offer client interface to allow policyholders to access their account information and complete certain transactions.
- ☐ Electronic fund transfers for payment of claims is a mandatory policyholder requirement.
- ☐ All policies and insurance cards are electronically distributed by all insurance. Paper copies are distributed at an additional cost.

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Directions: Indicate which of the following is true in regard to Service Centers.

1. An advantage is that service centers are not centralized.

True **False**

2. A benefit is that the use of a service center allows an agency to redirect resources to production and also to focus on larger clients.

True **False**

3. A benefit is that service centers are typically accessible to clients 24/7.

True **False**

4. There is no fee/cost/expense to the agency for the use of a service center.

True **False**

5. There are no licensing requirements involved for up-selling or cross-selling.

True **False**

Directions: Select the statement that most accurately describes services provided by most insurance companies to their policyholders.

- ☐ Most insurance companies will provide post-event disaster services to a policyholder for a fee, but only for certain types of covered disasters.
- ☐ Many insurance companies will offer privacy and security tips for free to a commercial lines policyholder who has purchased a cyber policy, but none to a homeowner.
- ☐ Many insurance companies will offer, at no charge, safety tips, and also provide severe weather alerts via email, text, or other electronic communication.
- ☐ Many insurance companies will offer and provide auto and driver safety tips and discounts, but only to those who are using telematics.

Technology

1. CRM system evaluates the performance of each producer.

True **False**

2. Electronic mailbox uploads application data from the agency's system directly to the carrier's system.

True **False**

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Answer Key

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Section 1: Introduction to Risk Analysis in the Risk Management Process

Strategic Planning

Knowledge Check

Directions: Explain the difference between strategy, strategic planning, and strategic plan. What are the questions the EMT must answer before it starts the strategic planning process? What sources of information will be needed to answer these questions?

Sample Answers:

- Strategy:
  - Thoughtful, deliberate plan of action
  - Chooses to be clear about the company's direction in relation to what's happening in a dynamic environment
  - Answers the question "How?" as in how will we achieve our aim of creating and nurturing a successful insurance company
- Strategic Plan:
  - The process used to create the strategic plan
  - Runs an ERM analysis, which determines risk and opportunities
  - Conducts a SWOT analysis and helps answer these questions: "Where are we now? Where are we going? How will we get there?
- Strategic Plan:
  - The formulated roadmap that describes how the company executes its chosen strategy
  - Provides answers from initial SWOT
  - Includes values, vision, and mission statements
- Three Questions:
  - Where are we now?
  - Where are we going?

  - How will we get there?
- Sources of Information:
  - Organizational values
  - Market trends
  - Regulatory guidelines
  - Competitive analysis
  - Risk appetite

The Strategic Management Process

Knowledge Check

Directions: What tools can the executive management team use to identify marketplace readiness and value propositions to determine capital structure, surplus requirements, and investment sources?

Strategy Formulation

Strategy Implementation

Strategy Evaluation

Organizational Structure

See effect in LG PG 19

Knowledge Check

Directions: Identify and describe the primary company structures and characteristics.

3. _____

4. _____

5. _____

- Stock Insurance Company

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  - Owned by stockholders (investors)
  - Primary objective is profit
  - Ease of capitalization
  - Mergers and acquisitions easier
  - Branding is easier
  - More pressure on topline growth
- Mutual Insurance Company
  - Owned by policyholders
  - Provide coverage at or near the cost of doing business
  - Profits used to pay dividends or used to reduce future premiums
  - Focus is on bottom line results
  - Less pressure on day-to-day results
  - Usually very stable
  - Expansion more difficult because surplus must be built over time
  - Mergers and acquisitions more difficult
- Reciprocal Insurance Company
  - Interinsurance exchange – individuals or organizations joined together
  - Subscribers insure one another
  - Less pressure on profits because they operate close to the cost of doing business
  - Easier to capitalize
  - Usually offer single line of business
  - Subscribers make premium deposits
  - Managed by an Attorney-In-Fact
  - State insurance regulation may be less strict
  - Difficult to raise additional capital
- Hybrid Structures
  - Use of holding companies to own and operate different company structures

— Can be made up of stock, mutual, reciprocal, and other company structures

Culture

Knowledge Check

Directions: Describe the distinct purpose of each kind of statement: values, vision, and mission.

Values Statement: The Values Statement is a statement of commonly held, core values that define the "who" of the organization. It is often referred to as the company's code of conduct. The statement describes the central theme, or top priorities, of the organization's culture.

Vision Statement: The Vision Statement is the light that guides the company to its hopes and ambitions for the future. Vision Statements are the foundation for the development and implementation of a long-term strategic plan.

Mission Statement: The Mission Statement is a short but powerful statement regarding the reason an organization exists. It is a "why" statement that states a company's core purpose and overall goal. The Mission Statement generally deals with the here and now. It identifies a company's operational goal, meaning the products it provides; the market(s) it serves; and its geographical territories.

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Risk Tolerance, Risk Appetite

Knowledge Check

What is the relationship between a company's risk tolerance and risk appetite and the EMT's decision-making process?

Sample Answer:

Risk Tolerance: The maximum amount of risk a person or organization is willing to assume

Risk Appetite: The maximum amount of risk the organization is willing to accept while striving to meet its strategic and tactical plans.

Other Operational Considerations

Knowledge Check

Alpha Insurance serves a large clientele of commercial farmers. The company is moving to an agricultural state to be closer to clients and which has no state taxes and offers tax incentives. It also has a favorable regulatory and judicial system. When choosing a city in that state for the main office, what are some other considerations the company might need to make?

Cost of living

Availability of resources

Future expansion flexibility

Financial Management

Knowledge Check

Directions: Describe the differences between STAT and GAAP accounting and in what situations each is the preferred system.

Sample Answer:

STAT Accounting: The primary goal of STAT accounting is to assist regulators in monitoring an insurance company's solvency. By making it easier for regulators to consistently monitor solvency, consumers benefit from the transparency and accuracy of the regulatory oversight.

GAAP Accounting: The purpose of GAAP accounting is to make the process of financial reporting transparent. It uses standardized assumptions, terminology, definitions, and methods. This allows easy comparison of companies to outside parties.

Actuarial Services

Knowledge Check

Directions: Describe the impact that IBNR reserves have on company financials.

Sample Answer:

IBNR represents the liability for unpaid claims not reflected in the case reserve estimates for individual losses and must be calculated to determine estimates of ultimate loss. Ultimate losses, therefore, include what has been paid to date, case reserves, and IBNR liabilities. By making sure the assets are large enough to cover all the liabilities, the company can ensure all reserves are sufficiently covered.

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Calculating with Ratios

Knowledge Check

Directions: What are the three primary probability ratios?

1. Loss Ratio: Measures the portion of each premium dollar that is used to pay losses.

$$\text{Loss Ratio} = \frac{\text{Incurred losses + Loss Adjustment Expenses}}{\text{Earned Premium}}$$

2. Underwriting Expense Ratio: Measures the portion of each premium dollar used to pay for a company's operating expenses.

$$\text{UW Expense Ratio} = \frac{\text{UW Expenses}}{\text{Earned Premium}}$$

3. Combined Ratio: Measures the profitability of a book of business and includes the loss ratio and expense ratio combined.

$$\text{Combined Ratio} = \frac{\text{Losses + LAE + UW Expenses}}{\text{Earned Premium}}$$

Communications

Knowledge Check

Directions: Explain the difference between internal and external communication.

How does communication impact strategic management?

Sample Answer:

Internal Communications: Occurs among members of the same organization. With internal communication, information must flow strategically to maintain the optimal level of engagement by all employees. This information must flow up and down the chain of command to the proper personnel to create efficiencies and engagement.

External Communications: Flow naturally from internal communications. Great external communications are a direct result of internal communications.

Impact on Strategic Management: Communications are the most effective way of creating visibility. Keeping employees informed and listening to feedback and suggestions creates a recipe for success at any company.

Compliance and Control

Knowledge Check

Directions: Use different types of audits to explain the importance of regulatory compliance.

Financial Solvency Exam: Conducted by the state of domicile only. It ensures a company's financial position is sound and accurate

Market Conduct Exam: Conducted in each state the company does business. It ensures the company is following its filed rules, rates, and forms, as well as any statutory market requirements

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Technology Management

Knowledge Check

Directions: What is strategic technology?

Sample Answer:

Technology that is unique, dependent upon, and intended to enable an insurance carrier's chosen operating model. The type of insurance, the products sold, the distribution methods used, and other factors influence the type of technology that is needed.

Section 1: Self-Quiz

1. Strategy is a thoughtful deliberate plan of action. Select the word that best describes this process.
   - ☐ What
   - ☐ When
   - ☐ Where
   - ☑ How

Directions: Circle True or False as it relates to the statement.

Marketplace evaluation includes the following:

1. Determining where gaps exist in the marketplace.

   True **False**

2. Evaluating the current stock market position.

   True **False**

3. Determining where customers are who need to be served.

   True **False**

4. Determining how needs can best be served.

   True **False**

5. Determining geographic areas with the largest populations.

   True **False**

6. Name the three management steps in the strategic management process.

   a) Formulate

   b) Implement

   c) Evaluate

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Organizational Structure

1. Match the listed profit objectives listed below om the left with the insurance company organizational structure on the right that most closely fits the profit objective:

Profit Objective	Company Structure
A. Duty to stockholder	__C__ Reciprocal
B. Duty to policyholder	__A__ Stock
C. Duty to subscriber	__B__ Mutual

2. Of the stock, mutual, and reciprocal structures, which most closely matches each characteristic?

Mutual	Reciprocal	Stock

The easiest access to additional funds Stock

Has the history of long term-operations Mutual

Is most capable of merging or acquiring another carrier Stock

Has the highest pressure on day-to-day operations to add top-line growth Stock

Is the easiest to capitalize Reciprocal

Has an objective to operate as close to its cost as possible Mutual or Reciprocal

3. Name three primary obligations of every member of a company board of directors.

   a) Duty to care

   b) Duty to loyalty

   c) Duty of obedience

Culture

1. Name two common approaches to the construction of a company's culture.

   a) Passive

   b) Active

2. Match the correct statement type to its listed definition.

Statement	Definition
A. Mission	__B__ What we want to be when we grow up.
B. Vision	__A__ Core purpose and goals, in the here and now
C. Values	__C__ Commonly held core, the "who"

Risk Tolerance, Risk Appetite

Directions: Circle True or False.

1. A company with a high risk tolerance is known as being risk averse.

   True **False**

2. Risk appetite varies little by line of business or geographic territory.

   True **False**

3. A company's risk tolerance needs to be broad enough to succeed in target markets.

   True **False**

4. Risk appetite is the most risk a company will accept while still striving to reach strategic and tactical plans.

   True **False**

5. Use of management controls has no effect on risk appetite integrity.

   True **False**

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6. Name two ways a company can create spread of risk.

   a) Geographically

   b) Lines of business

7. Risk appetite determines several key company decisions on location and lines of business. List five of those decisions.

   a) Single vs. multiple locations of operations

   b) Specialist vs. generalist

   c) Geographic footprint

   d) Receptiveness by distribution sources

   e) Barriers to competition

Other Operational Considerations

1. Carriers need to decide if they will operate in a centralized or decentralized structure. Each approach has pros and cons. Select the structure that applies to the following consequences:

	Centralized	Decentralized
High risk of bureaucracy	X	
Procedural differences		X
Audit/compliance issues		X
Slow response to problems	X	
Local focus only		X
Higher risk actions won't meet goals		X

2. Name three environments that a carrier needs to address in its strategic thinking.

   a) Regulatory

   b) Judicial

   c) Business

3. A carrier needs to assess available resources when deciding on a location in which to operate. For each resource listed below, indicate with a Yes or No if it is a resource necessary to operate.

Directions: Circle Yes or No.

Available personnel

Yes **No**

Nearby restaurants

Yes **No**

Available physical facilities

Yes **No**

Public transportation

Yes **No**

Temperate climate

Yes **No**

Technological infrastructure

Yes **No**

Financial Management

1. Name the two financial items that any basic accounting structure tracks.

   a) Income

   b) Expenses

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Directions: Circle True or False.

1. GAAP accounting is required by the National Association of Insurance Commissioners.

   True **False**

   Reqired by the SEC/FASB

2. GAAP accounting is required for reports of publicly traded companies.

   True **False**

3. STAT accounting is a system unique to insurance accounting.

   True **False**

4. GAAP accounting allows investors and shareholders to make realistic financial decisions.

   True **False**

5. STAT accounting allows for liberal financial reports.

   True **False**

6. STAT accounting focuses on consumer protection.

   True **False**

7. GAAP accounting is on an "ongoing operation" basis.

   True **False**

8. STAT accounting was developed based on three pillars. Name them.

   a) Conservatism

   b) Recognition

   c) Consistency

Actuarial Services

1. Name the two key responsibilities of an actuary in an insurance company.

   a) Ratemaking

   b) Reserving

Directions: Select True or False.

1. Under-reserving can make a company's results look worse.

   True **False**

2. Reserves are funds set aside to pay future benefits for obligations.

   True **False**

3. Case reserves are estimates of what a claim will cost based on information available at the time the reserve is set.

   True **False**

4. ALAE (allocated loss adjustment expenses) are not included in case reserves.

   True **False**

5. Which is most accurate when describing "ultimate loss":

   - [x] Represents the amount the company believes it will ultimately pay for a loss
   - [ ] Represents the largest loss over the past year for a company
   - [ ] Represents an easy actuarial calculation using current case reserves
   - [ ] Represents an estimated ultimate loss which is the same for all lines of business

Directions: Circle True or False related to the following statement.

Loss triangles are used to:

1. Compute prior claims value changes period-to-period

   True **False**

2. Calculate anticipated future changes in claims value

   True **False**

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3. Examine a claim for only one year

True **False**

4. Examine only future activities without regard to historic data

True **False**

Directions: Circle True or False.

1. Reserves are usually the largest liabilities on a company balance sheet.

True **False**

2. Reserves differ for different products.

True **False**

3. Reserves for property losses usually last longer until closed.

True **False**

4. Reserves for workers' compensation losses are referred to as "long-tail" claims.

True **False**

5. Reserves have no impact on rates charged for future policies.

True **False**

6. High reserve amounts mean a company needs less surplus to operate.

True **False**

Calculating with Ratios

1. Profitability ratios are based on comparing money going out to money coming in. Below, match the income or expense item on the left to the correct definition on the right.

Income or expense	Definition
D Written premium	**A.** Premium collected but not allowed on the books
F Earned premium	**B.** Adjusting expenses assigned to a particular claim
B ALAE	**C.** Expense considered claim department operation expense
E UW expense	**D.** Total of all premium on all in-force policies
C ULAE	**E.** General operational expenses of the company
A Unearned premium	**F.** Premium collected and on books to meet obligations

Directions: Circle True or False

1. Ratios greater than 1.0: 1.0 indicate a profitable result.

True **False**

2. One number used in a profit ratio is always an "expense" number.

True **False**

3. Profit ratios can be based on either written or earned premium.

True **False**

Communications

Directions: Circle True or False

1. Communication is a monologue, not a dialogue.

True **False**

2. Listening is a very important part of the communication process.

True **False**

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3. The EMT needs to receive feedback on a message it presents to others.

True **False**

4. Communication by an insurance company is external only.

True **False**

5. Internal communication plays an active part in communicating culture and brand to all employees.

True **False**

Compliance and Control

1. There are two primary purposes for insurance regulation. Name them.

   a) Insurer solvency

   b) Fair treatment for policyholders and claimants

2. Insurance company audits can be conducted by the insurance company or by an external organization. Internal audits are more likely to measure if the carrier is performing within the prescribed limits. Audits conducted by external organization tend to focus more on the financial status of the carrier. Below is a list of topics commonly subject to audit. Indicate if the topic is subject to a financial audit or a performance audit.

TOPIC	FINANCIAL	PERFORMANCE
Surplus	X	
Market conduct		X
Licensing		X
Reserves	X	
Accounting reports		X
Reinsurance		X
Internal compliance/ control		X

Technology Management

1. In recent years technology has become a more important facet of insurance company operations. Technology advancements have become the expected by the public and have become a "ticket to play" for insurance carriers. Computer assistance can be recognized as serving one of two purposes—either base services or strategic services. Listed below on the left are several services carriers look to technology to handle. For each service, indicate if this is a base or strategic service.

SERVICE	BASE	STRATEGIC
Working environment	X	
User interface		X
Website	X	
Real time rating		X
Payroll/HR	X	
Third-party services interface		X
Policy processing	X	
Direct Billing/EFT		X
Accounting/finance	X	
Claims	X	
ePolicy delivery		X
Policyholder self service		X
Billing	X	
Building value estimates		X
Online Underwriting		X
Loss Control Services		X
Data Warehouse	X	

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2. Technology systems are those performing in three major areas for insurance carriers. Name these three areas.

   a) Production support, "keep the trains running"

   b) Maintenance, implementing updates

   c) Development, supporting high level executive decisions like new lines of business, new sites, new department systems like UW or claims.

3. Implementation of automation systems fall into two techniques. Name these two techniques.

   a) Waterfall

   b) Agile

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Section 2: Product Development

Developing a Tactical Plan

Knowledge Check

Directions: Read the excerpt from the EMT's strategic plan. Then select from the list which actions the product development team will pursue. Explain why you chose those actions.

EMT's Strategic Plan Excerpt: Develop and price a product that will better position the company in the Southwest region.

- **a)** Review federal and state rules and regulations in new geographical area.
- **b)** Design a marketing campaign to promote the new product.
- **c)** Meet with actuaries and underwriters to see if risk appetite of EMT for product matches the rates set.
- **d)** Locate personnel will special knowledge in the new product sector.
- **e)** Keep forms the same without reviewing for possible changes.

Sample Answers:

Regulatory Environment: Necessary to gain the approval of regulators for rules, rates, and forms.

Judicial Environment: Understanding the judicial environment will help the team accomplish two important things. They can build forms that can withstand challenges to the coverage intended to be provided in the forms, and participate in the development of rates.

Risk Appetite: Underwriting rules and guidelines, along with proper rate development, are critical in meeting that appetite. Working with actuaries, the product development team builds rates that can cover the pure cost of risk plus projected expenses and desired profits. The team also considers risk appetite when it develops forms and endorsements.

Lines of Business: As product development begins the process of developing rules, rates, and forms, it most certainly makes sure that the coverage provided is in line with the company's strategic plan.

Geographic Footprint: Product Development makes sure it has personnel possessing the proper skillsets required to meet the market challenges created by doing business in this footprint.

Product Development

Knowledge Check

Directions: When an insurance company contemplates development of proprietary forms, name the steps they will engage in to develop that product.

Develop a concept or idea

Conduct a feasibility study

Design and develop

Implement and launch

Monitor and modify

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Product Pricing

Knowledge Check

When a new product has acquired a claims history, what information does the product development team need from actuaries and how do they get it?

Sample Answer:

In the process of ratemaking, actuaries must come up with the pure cost of risk – the estimated amount of premium that will cover all of the ultimate losses over time. Now actuaries must take two additional steps. First, they must "trend" or index losses. Indexing is accomplished by factoring in inflation, which takes yesterday's dollars and expresses them based on the value of today's dollar. Once ultimate losses have been converted to today's dollars, actuaries then divide the losses by the exposure base to develop the pure cost of risk. Once the Product Development Department has the loss cost, it works closely with the Actuarial Department to develop a loss cost multiplier (LCM). The LCM contemplates underwriting expenses and desired profit. The loss cost is then multiplied by the LCM to determine the final base rate.

Section 2: Self-Quiz

Developing a Tactical Plan

Directions: Fill in the blank

A tactical plan answers **how** the strategic plan will be achieved.

Directions: Name three factors that affect the decisions on the type of products developed by the product development department.

a) regulatory compliance

b) understand judicial environment

c) risk appetite

Product Development

Directions: Circle True or False

The product development team is responsible for establishing and monitoring pricing.

True **False**

Directions: Indicate the correct sequence of the steps in the product development process by numbering the items below.

__4__ Implement or launch the product

__2__ Conduct a feasibility study

__5__ Monitor and modify the product

__1__ Develop a concept or idea

__3__ Design and develop the product

Directions: Fill in the blank with the term that matches the definition.

Pooling is simply aggregating all of the premiums for a specific line of business.

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Directions: Select the statement that best describes the roles and responsibilities of product development.

- ☐ Always its own department and is responsible for development of contracts only, but will coordinate with other departments on pricing and distribution.
- ☑ May be its own department or a part of another department and the assigned responsibilities will vary from company to company.
- ☐ Part of the actuarial department as the actuarial department has to determine the price of the newly developed contracts.
- ☐ It has its own department with assigned responsibilities to develop contracts, but Underwriting manages the product.

Directions: Indicate which of the following is included in the development of a new product.

1. A new product in an existing state

Included **Not Included**

2. A new line of business for both existing and new states

Included **Not Included**

3. A new product within an existing line of business in existing states

Included **Not Included**

4. A new product in a new state

Included **Not Included**

5. An existing line of business approved for use in a new state

Included **Not Included**

Directions: Which of the following is an accurate statement about the review of product performance?

- ☐ Once launched, a review of the rates should be conducted after five years to analyze the profitability of a product.
- ☐ If the review process indicates a product is performing profitably, there should be a rate increase consideration.
- ☑ The review process includes monitoring the competition, customer value, and the frequency of claims.
- ☐ Once launched, there is no need to change distribution compensation.

Directions: Indicate which statements are true in regard to rate adjustments. Circle True or False.

1. Rate increases impact all policyholders equally.

   True **False**

2. Both increases and decreases in rates impact the retention ratio.

   True **False**

3. Rate decreases on existing business result in a lower retention rate.

   True **False**

4. Rate increases on existing business may create adverse selection.

   True **False**

5. Rate decreases on existing business result in a reduction on the average premium per account.

   True **False**

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Product Pricing

Directions: Identify whether or not there is a possible need for modification or enhancements of a product in regard to each of the following. Circle Yes or No.

1. Policy interpretation mirrors the intent of the product.

   Yes **No**

2. Desire to create a competitive advantage

   Yes **No**

3. Data identifies emerging trends for certain industries.

   Yes **No**

4. Changes in laws or statutes

   Yes **No**

5. Other than insurance, changes in regulations of other industries

   Yes **No**

6. Court decisions expand liability beyond the intent of the product.

   Yes **No**

7. Claims demonstrate severity and frequency are the same as forecasted.

   Yes **No**

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Section 3: Underwriting

Underwriting Resources

Knowledge Check

Directions: List the tools and resources that are available to the underwriting department to identify appropriate risks and rewards and align or realign company targets to the tactical plan.

Motor vehicle reports on drivers

Automobile registrations and vehicle details

Deeds of purchase and sale

CLUE (Comprehensive Loss Underwriting Exchange) reports

Credit reports

Permit data on home construction and repairs

Aerial imagery

Flood zones

Proximity to fire stations and fire hydrants

Other pertinent information available on various websites

Predictive analytics

Artificial intelligence

Telematics

The agent's personal knowledge of an account

Detailed financial statements

Loss runs from prior carriers

Loss control reports

Premium audits

Underwriting tools such as:

- Best's Hazard Index
- FC&S Bulletins
- SIC Codes
- NAICS Codes
- OSHA Standards
- IRMI Reports

Department Structure

Knowledge Check

Directions: Name three considerations when structuring or restructuring the underwriting department.

1. Company Size:

2. Geographic Territory

3. Account Types

Market Cycles

Knowledge Check

Directions: Name the two types of market cycles and list three characteristics of each.

Sample Answers:

1. Hard Market:
   - **a)** Rates rise due to deteriorating loss results
   - **b)** Restrict coverage offerings
   - **c)** Tighten underwriting standards
   - **d)** Exit segments of business entirely
   - **e)** Focus on retention rather than new business
   - **f)** More use of E&S markets

2. Soft Market:
   - **a)** Rates stabilize or go down due to restored profitability
   - **b)** Relaxation of underwriting guidelines
   - **c)** Increased market penetration
   - **d)** Roll out new coverages
   - **e)** Less use of E&S markets

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Reinsurance

Knowledge Check

According to the tactical plan, the underwriting department has identified a need for new product support and entrance into a new market that is prone to wildfires. What kind of reinsurance would you need. Why?

Excess of Loss Reinsurance: Used for catastrophe exposures: Catastrophic events can cause devastating losses for an insurance company. These losses can result in decreased earning and even possible insolvency. Reinsurance can be purchased to alleviate the potential consequences of hurricanes, earthquakes, tornadoes, and wildfires.

Loss Control

Knowledge Check

Directions: Make a case for why loss control can help in these two situations:

1. A policy covering a remote property in rough terrain is up for renewal. The property has not been viewed in a few years. How can loss control personnel or tools help in this scenario?

Sample Answer:

The purpose of the assessment or survey is to help facilitate an underwriter's risk selection by helping to determine the insurability of a risk. It identifies and evaluates the risk exposures presented by the insured. Once the evaluation is complete, an analyses report is provided to help the underwriter better understand the risk so proper classifications can be assigned. A drone can be used to access the property if a personal inspection cannot be completed.

2. Several recommendations to lower premium have been made to lessen risk at a commercial property location. How can loss control personnel provide support in this scenario?

Sample Answer:

Loss control personnel provide recommendations to help eliminate or reduce the possibility of loss or to minimize the severity of loss. Some recommendations may require mandatory compliance, while other may be optional. Once recommendations have been made to the insured, loss control personnel follow up to see if the recommendations have been implemented. Loss control services can also be bundled or unbundled. Bundled services are commonly offered without a separate fee and are offered to all policyholders. Unbundled services are provided through third party vendors that offer loss control services for a fee.

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Premium Audit

Knowledge Check

Why are premium audits important? Give a justification for audits for medium and large accounts. How can these audits be carried out in a cost-effective way?

Sample Answers:

Importance of Premium Audits: Since premiums are estimated up front, premiums charged are deposit premiums. After a policy period expires, a company must determine the actual exposure for an insured during the time the policy was in force. This determination requires a premium audit. The purpose of a premium audit is to ascertain an actual exposure so the insurance company can collect the premium developed by that exposure.

Medium and Large Accounts: Medium and large accounts may have multiple classifications and exposure estimates. Since these exposures can fluctuate greatly during the policy year, audits need to be completed to get the proper premium based on the actual exposure. Also, these accounts can add services that require new classifications during the policy term.

Large insurers may have internal staff dedicated to conducting premium audits. Other insurers outsource premium audit functions to a third-party audit firm. Some insurance companies require smaller insureds to complete voluntary audits. An Insured that uses a payroll vendor may allow that vendor to report its payroll to its insurer. Some insurers waive the audit requirement for small accounts.

Underwriting Technology

should it be tasks and reasons to fit the answers?

Knowledge Check

Directions: Describe the reasons and tasks necessary for effective software and hardware systems technology that can handle different kinds of data interfaces within the underwriting department and between other databases, such as that of a reinsurer.

Sample Answers:

Submission intake: The transaction process begins with the application data being entered into a policy management system.

Technology suite: Often referred to as "upload/download," that provides direct transfer of submission data from an agency management system into a carrier's system.

OFAC: Insurers generally comply with OFAC requirements by checking applicant information against OFAC rules automatically in their systems.

Clearance: To avoid providing multiple quotes policy management systems review applications when they are received to determine whether they were previously submitted from another producer.

Rating: The rating process involves collecting application data and applying the rating rules for each product to calculate a price.

Quoting: Quoting capability is the means by which a proposed product and premium are offered to a customer.

Bind/policy issuance: Once a quote has been accepted, a policy management system delivers the supporting documentation which may include a binder confirming coverage and a policy which includes all of the details of coverage.

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Section 3: Self-Quiz

The Tactical Plan and the Underwriting Process

Directions: The six steps to the underwriting process are shown below in random order. Sequentially number the steps in their correct order, beginning with step 1.

5	Policy issuance
2	Additional information request
6	Follow-up
1	Initial review
4	Pricing
3	Coverage determination

Directions: Use the following terms to fill in the blanks.

acceptability	**are not**
accuracy	**certain regulators may not**
all regulators do not	**experience factor found in the underwriting guidelines**
are	**merits of the risk, program, or agency segmentation**

1. Applications from agents are not the only resource needed to complete the underwriting process.

2. Underwriters make the initial review of the insurance application and supporting documents to determine the accuracy of a submission.

3. Discretionary pricing refers to the ability of an individual underwriter to credit or debit an account or a portion of an account based on the merits of the risk, program, or agency segmentation.

4. Certain regulators may not allow policies to be delivered electronically.

Directions: Match the type of business with the characteristics of renewal underwriting for that type of business.

A. Personal lines and small commercial lines accounts **B.** Large accounts **C.** Middle-market accounts	**C** are risks where the exposure base changes are updated each year. This is a process in which an agent gives updated information to the underwriter and modifications are made to the renewal policy..
	B demands a more hands-on approach. Often the renewal underwriting review is as rigorous as new business.
	A are often referred to as commodity lines. For these accounts, the renewal underwriting process is as automated as possible.

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Underwriting Resources

Directions: Circle True or False.

1. There are many resources available to underwriters, and the ones selected depend on the types of reviews they need for individual accounts.

True **False**

2. Similar to commercial lines, the underwriting decision-making process for personal and small commercial lines is less objective, thus not lending itself to automation.

True **False**

3. The agent's personal knowledge of an account is a robust source of underwriting information for commercial lines.

True **False**

4. Deeds of purchase, CLUE reports, and data on home construction and repair are all examples of resources used in personal lines underwriting.

True **False**

Directions: Match the following terms with the descriptions:

A. Artificial intelligence **B.** Predictive analytics **C.** Telematics	**B** encompass a variety of statistical techniques, including data mining, modeling, and machine learning that analyze current and historical facts to make assessments about future or otherwise unknown events.
	A is defined as the theory and development of computer systems able to perform tasks that normally require human intelligence, such as visual perception, speech recognition, decision-making, and translation between languages.
	C is a tool that enables a granular examination of personal lines accounts, letting underwriters zero-in on individual risks. Examples include vehicle tracking devices and devices in homes to provide real-time information.

Directions: For each of the following sources of information, indicate whether they are predominately used in commercial lines or personal lines by putting a C or P after the source of information.

1. CLUE reports P
2. Premium audits C
3. Detailed financial statements C
4. Permit data on home construction and repair P
5. Tools such as Best Hazard Index, FC&S, and NAICS codes C

Department Structure

1. Which four of the following is the correct list of specific criteria used to structure an underwriting department?
   - ☑ Company size
   - ☑ Geographic territory
   - ☑ Account types
   - ☑ Structural evolution
   - ☐ Company charter
   - ☐ Legal environment
   - ☐ Distribution force
   - ☐ Investment return

Directions: Indicate with a Yes or No which of the following entities may be granted underwriting authority.

1. Policyholders

   Yes **No** (No circled)

2. Independent agency personnel

   Yes (circled) **No**

3. Exclusive, direct, captive agents

   Yes (circled) **No**

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4. Marketing representatives

Yes **No**

5. Policyholder's legal counsel

Yes **No**

6. Managing general agents (MGA)

Yes **No**

7. Risk specialist/loss control specialist

Yes **No**

Directions: Circle True or False.

1. Underwriters employed by small insurance companies are typically generalists out of necessity.

True **False**

2. Large insurance companies may have the luxury of designating underwriters as specialists in their various market segments and geographical territories.

True **False**

3. Geographical territory has no influence on the types of experience and expertise required within an underwriting department.

True **False**

4. Underwriting of commercial lines is the same whether it be small commercial, middle-market, or large commercial accounts.

True **False**

5. As a company grows and expands, the underwriting department needs to change.

True **False**

Market Cycles

Directions: Indicate with a Yes or No which of the following factors influence the insurance market cycle.

1. Desire for top-line revenue growth

Yes **No**

2. Focus on bottom-line profits

Yes **No**

3. Success or failure of peer companies within the industry

Yes **No**

4. Catastrophic losses

Yes **No**

5. Reinsurance availability

Yes **No**

6. Economic influences such as interest rates, inflation, and stock market trends

Yes **No**

Directions: For each of the following, indicate which market cycle it best describes—Hard or Soft.

1. Companies begin to raise rates.

Hard **Soft**

2. Companies restrict coverage availability.

Hard **Soft**

3. Companies are in a growth mode.

Hard **Soft**

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4. Companies relax their underwriting guidelines.

Hard **Soft**

5. Companies roll out new products and coverages.

Hard **Soft**

6. Companies create a need for the excess and surplus markets.

Hard **Soft**

Directions: Use the following terms to fill in the blanks.

actuarially sound	**growth goals**
bottom-line profitability	**increased**
coverage hunters	**may not**
catastrophic losses only	**price shoppers**
day-to-day losses	**will always**

1. Pricing integrity refers to a company's adherence to actuarially sound premiums despite outside influences.

2. "Attritional" losses refer to a company's day-to-day losses.

3. During a hard market, companies maintain a conservative posture until bottom-line profitability is achieved.

4. During a soft market, consumers become price shoppers first.

5. Due to the various factors influencing the market cycles, it should be noted that commercial and personal lines market cycles may not coincide.

Reinsurance

Directions: Match the following seven reinsurance terms with their appropriate definition:

Terms	Definitions
A. Reinsurance **B.** Ceding company **C.** Reinsurer **D.** Treaty reinsurance **E.** Facultative reinsurance **F.** Pro rata reinsurance **G.** Excess of loss Rreinsurance	**D** A ceding company and a reinsurer enter into an agreement for certain classes of business that are to be ceded. In the agreement, the reinsurer agrees to accept all risks that qualify under the treaty.
	F An agreement between an insured and reinsurer to share insurance based on an agreed percentage.
	E This reinsurance is written on a risk-by-risk basis. Each exposure that a company wishes to reinsure is offered to the reinsurer as a single transaction.
	A A contractual arrangement in which one insurance company agrees to insure the assumed liabilities of another insurance company.
	G A ceding company agrees to retain a certain amount of liability for losses. This liability is known as the company's retention. The reinsurer agrees to indemnify the ceding company for all losses exceeding the retention up to the limit in the agreement.
	C An insurance company that accepts the liabilities from a ceding company for a stated premium.
	B The primary insurance company that is transferring part of its liability to another insurance company.

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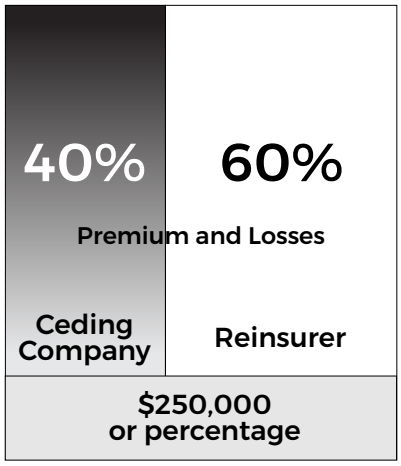
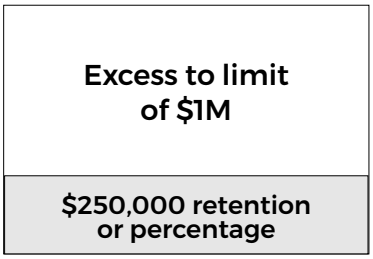
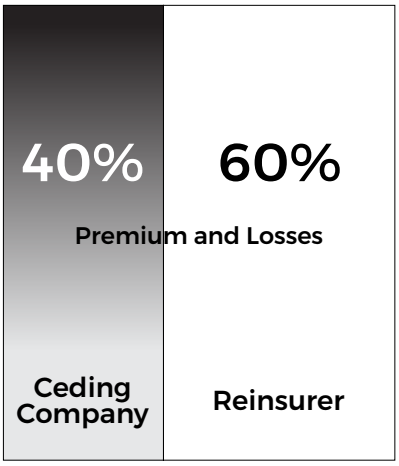
Directions: The three illustrations shown below represent pro rata quota share, pro rata surplus share, and excess of loss reinsurance. Identify each by placing the appropriate description under each illustration.



Pro rata surplus share



Excess of loss reinsurance



Pro rata quota share

Directions: Circle True or False.

1. A company may want to venture into new lines of business or unfamiliar territories. Because they typically deal in many geographical territories and lines of business, reinsurers can provide guidance and counsel.

   True **False**

2. The choice of whether to use treaty or facultative reinsurance is determined by the insurance company's size.

   True **False**

3. Securing the proper reinsurance may allow a company to increase its ability to write larger lines of business than it would otherwise be able or willing to do.

   True **False**

4. Reinsurance allows a company to share risk until the premium volume reaches a certain point or the ceding company gains confidence in unfamiliar coverages.

   True **False**

5. Reinsurance can be purchased to alleviate the potential consequences of hurricanes, earthquakes, tornadoes, and wildfires.

True **False**

6. Apex Insurance Company has an excellent portfolio of coverages and experienced underwriters. Therefore, they do not need reinsurance.

True **False**

7. Sometimes a company experiences wide variations in financial results from year to year that can create regulatory, shareholder/policyholder, or rating agency problems. Reinsurance can be used to smooth these fluctuations.

True **False**

Loss Control

Directions: Select the correct statement from each of the following groups of three.

- ☐ The loss control process is necessary on the review of every commercial risk.
- ☑ Loss control personnel perform risk assessments and underwriting surveys that enhance the underwriting process.
- ☐ The loss control department must sign off on risks of a predetermined premium volume.
- ☐ The purpose of the assessment or survey is to comply with the state department of insurance regulations.
- ☐ The purpose of the assessment or survey is to satisfy reinsurance requirements.
- ☑ The purpose of the assessment or survey is to help facilitate an underwriter's risk selection by helping to determine the insurability of a risk.
- ☑ Some loss control recommendations may require mandatory compliance, while others may be optional.
- ☐ All loss control recommendations are mandatory.
- ☐ All loss control recommendations are optional.
- ☐ All loss control services are automatically provided to policyholders without a fee.
- ☑ Loss control services may be provided with or without a fee structure.
- ☐ Companies typically charge for each and every loss control service provided.

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Premium Audit

Directions: Select the correct word or phrase to make the following statements correct.

60 to 90 days	**description of the insured's scope of operation**
90 to 120 days	**estimated premium basis**
actual exposure	**insured's operation**
annual	**owe an additional premium**
be owed a return premium	**semi-annual**
coverage territory	

1. The purpose of a premium audit is to ascertain the actual exposure so the insurance company can collect the premium developed by that exposure.

2. These are two critical components of the proper pricing of a risk—classification and estimated premium basis.

3. When a policy is written, a classification is developed based on the description of the insured's scope of operation.

4. Generally, the audit period for most policies is annual.

5. The final audit is usually completed within 60 to 90 days after a policy expires.

6. If the exposure base is higher than estimated, the insured will owe an additional premium for the audit period.

Directions: Circle True or False.

1. General liability uses a number of different exposure bases, depending on the nature of the risk.

True **False**

2. Advisory rating services provide the premium bases to accomplish the goal of collecting the appropriate premium for exposure.

True **False**

3. The *Commercial Lines Manual* provides direction on how to apply the exposure bases.

True **False**

4. For most general liability exposures, the rating is on a per $100 of exposure basis.

True **False**

5. Remuneration means gross sales.

True **False**

6. The Business Auto Policy has a number of exposures that are rated on an estimated basis, requiring a post-policy period audit.

True **False**

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Underwriting Technology

Directions: Match the following underwriting technology component terms with the appropriate description in the table.

Component Terms	Descriptions
A. Submission intake **B.** "Upload/ download" **C.** Office of Foreign Assets Control **D.** Rating **E.** Quoting **F.** Binding/ policy issuance **G.** Clearance	**E** The means by which a proposed product and premium are offered to a customer.
	C A division of the US Treasury which enforces economic and trade sanctions applicable to other countries.
	A The transaction process begins with the application data being entered into a policy management system. This data includes basic information such as the name and address of the insured, information about the exposures to be covered, and the types of coverage requested.
	F Once a quote has been accepted, a policy management system delivers the supporting documentation which may include a binder confirming coverage and a policy which includes all of the details of coverage
	B Provides direct transfer of submission data from an agency management system into a carrier's system. This data is captured in the carrier's policy management system and the resulting output is downloaded electronically back into the agent's system.
	G Prospective clients may apply for insurance with multiple producers. To avoid providing multiple quotes which may be inconsistent or even competitive with one another and belong to different producers, policy management systems review applications when they are received to determine whether they were previously submitted by another producer.
	D This process involves collecting application data and applying the rating rules for each product to calculate a price.

Directions: Rank in the correct order from highest to lowest, the lines of business which have the most to least amount of "pass-through" ability due to technology.

Ranking	Lines of Business (shown in random order)
2	Small Commercial
1	Personal Auto
3	Large Commercial

Underwriting Technology

Directions: Choose the underwriting policy management term/tool that matches the description.

Underwriting Management Terms/Tools	Terms/Tools Descriptions
A. Predictive modeling **B.** Underwriting warnings **C.** Internal data **D.** External data **E.** Underwriting controls/ governance	E Distinct from underwriting guidance, many systems also impose limits on what underwriters are permitted to do, in order to protect a company both from underwriting risk that is outside of the company's appetite and to ensure regulatory compliance.
	B Some systems are programmed to trigger a notice to an underwriter based on a set of predetermined business rules.
	C As part of the underwriting process, data from other functions within a company is usually collected for review.
	D Data is used in the underwriting process to confirm the information in the application or to supplement the application with additional information to better understand the exposure.
	A Formulas that adjust for individual risk characteristics that are not reflected in the basic rating structure.

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Section 4: Claims Management

Claims' Tactical Plan

Knowledge Check

Directions: Identify the different kinds of personnel and specialty units needed by the claims department to carry out the tactical plan.

Internal personnel

Use of independent adjusters

Use of third-party administrators

Specialty adjusters for certain lines of business

Special Investigations Unit

Subrogation unit\

Steps in the Claims Process and Its Strategic Plan

Knowledge Check

Directions: Name the five steps in the claims process. Write a sentence about each step and its importance.

1. **Report:** Reporting should be timely and accurate, allowing the company to get the initial details into the system as soon as possible. This helps ensure the adjuster can take action to mitigate and stabilize the claim quickly.

2. **Investigate:** Determining whether or not coverage is applicable to a loss is the first step completed by a claims adjuster. The methodology used depends on whether the claim is first-party or third-party in nature.

3. **Verify:** For first-party property claims or third-party property damage claims, the adjuster will need some form of documentation that the property was owned by the claimant and what the value is. Claims that involve medical services, such as medical payments losses, workers' compensation, or third-party bodily injury losses will require copies of bills and receipts for medical services and treatments.

4. **Evaluate:** When dealing with first-party property claims, there are factors involved in the equation of how much a company will pay. With liability claims, the degree of negligence for each party is considered in the evaluation process.

5. **Resolve:** There are four ways of resolving a claim: pay in full; pay in part; deny without payment; and close without payment.

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Subrogation and Salvage

Knowledge Check

Directions: In your own words, define the terms subrogation and salvage, and how and when they come into play.

Sample Answers:

Subrogation: Transfers the right of recovery from the insured to the insurance company when it pays a loss to the insured caused by another party.

Salvage: Property that has not been totally lost or destroyed will have some level of value to the insurance company.

Special Investigations Unit

Was given 5 steps. Rewrite directions?

Knowledge Check

Directions: You are a part of a SIU (special investigation unit) and have been assigned a suspected fraud case. What will you do first? Second? Third?

1. Conduct interviews with policyholder, claimant(s), witness(es), any others with knowledge of the claim, and the agent
2. Notify law enforcement if necessary
3. Work with adjuster and legal counsel
4. Notify other departments, such as underwriting
5. If no fraud, return file to the adjuster

Litigation Management

Knowledge Check

Directions: Make a case for an insurance company having its own litigation management team.

Sample Answer:

Litigation costs are often the largest outside expense for the insurance company. Litigation expense can have a significant influence on the overall financial results of the company. Litigation management is a process that manages the use of litigation and mitigates the associated costs. Litigation management can have a positive effect on the bottom line and make the implementation of the strategic plan more achievable.

Bad Faith

Knowledge Check

Directions: What is the impact of bad faith actions carried out by a claims department? How will it affect the insurance company and its strategic plan?

Sample Answers:

When the court finds the insurance company guilty of bad faith, it awards damages to the insured. It's not uncommon for damages to be in excess of policy limits.

An employee or a department acting in bad faith can devastate a company. This can affect retention of clients and the gain of new ones. The company can face regulatory and legal consequences, as a result. This can affect public perception and the finance of the company on a large scale, defeating the EMT's strategic plan.

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Catastrophe Planning

Knowledge Check

Directions: What is a CAT plan and why is it important especially to the claims department when a disaster happens?.

Sample Answers:

Many state departments of insurance require the insurance company's claims department to file CAT plans each year. The company's CAT plan will vary depending on a number of factors including: size of the insurance company; geographic location of the insurance company; claims department staffing model;lines of business written; severity and type of claims the insurance company expects to receive.

CAT losses put the greatest amount of strain on the insurance company's claims handling ability. They also create the greatest concern for the policyholder.

Claims Technology

Knowledge Check

Directions: How does claims technology streamline what the department can do in these areas: input, resources, case type and load, storage and cross-referencing, settlement, and fraud detection.

Sample Answers:

Input: The system establishes a new claim, assigns a claim number and permits the person receiving the claims to collect and store preliminary information such as the date and circumstances of the incident, the names of individuals involved and the insured's policy number.

Resources: One of the most important tasks of the claims system early in the process is to assign the claim to the right resources and path to resolution. Property claims must be assigned to property adjusters, liability claims to those skilled in handling legal and liability-oriented matters, and workers compensation claims to those who are experienced in the

unique laws, courts, medical considerations and compensation dynamics of the workers compensation world.

Case Type and Load: It is imperative to manage the case loads of adjusters so that they have the time and resources necessary to handle each claim properly. In the case of very complex cases, an adjuster may only have capacity for a few claims at any one time. Adjusters handling very simple claims may have dozens or even hundreds of claims at any given time.

Storage and Cross-referencing: The claims system provides the central point for storage of these artifacts. In addition, because of the sensitivity of some reports – for example medical records are subject to state and federal laws regarding confidentiality – the system must not just store these reports but have security features in place to ensure that they cannot be accessed by anyone who is not authorized to do so.

Settlement: Payments are made from the company's bank accounts. Transactions are recorded in the general ledger of the company. And the claims system passes the statistical detail needed to complete financial statements and as well as other reporting obligations.

Fraud Detection: Claims systems include safeguards to identify suspicious activity. They may use specific triggers, such as a large number of occupants involved in an automobile accident. Algorithmic models scan multiple factors and look at the accumulation of those dynamics to identify claims for further investigation. Some claims systems collect external data or scan social media to identify situations where fraud may be occurring.

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Section 4: Self-Quiz

Claims' Tactical Plan

Directions: There are several considerations the claims department makes regarding technology. List 3 areas technology will be utilized within the claims department.

1. reporting
2. investigation
3. handling

Other possible answers: could be **closing of claims**

Directions: Circle True or False related to the following statement.

Claims are only handled internally within the insurance company.

True **False**

Steps in the Claims Process and its Strategic Plan

Directions: Select the correct sequence of the five steps in the claims process:

- ☐ Reserve, investigate, verify, estimate, resolve
- ☐ Report, interpret, verify, evaluate, resolve
- ☑ Report, investigate, verify, evaluate, resolve
- ☐ Reserve, interpret, verify, estimate, resolve

Directions: There are several different people that can report a loss to an insurance company. Name three

1. agency
2. third party
3. policyholder

Directions: Identify each of the following statements as True or False

1. Duty to indemnify is broader than duty to defend.

True **False**

2. Defense may be provided for an insured even when the insured is not legally liable.

True **False**

3. An investigation to determine coverage may require resources that involve the services of others, such as a forensic accountant or consulting engineer.

True **False**

4. The established case reserve, including the allocated loss adjustment expense (ALAE), may be impacted by the information discovered during the investigation.

True **False**

Directions: Select the statement that best describes the concept of joint and several liability.

- [x] Liability that may be apportioned either among two or more parties or to only one of a few select members of the group, at the adversary's discretion.
- [ ] Liability that may be apportioned jointly or separately by policy when a policyholder has more than one policy with different carriers.
- [ ] Liability that is jointly defended by more than one insurance company when several parties file a lawsuit against one or more policyholders.
- [ ] Several persons may either jointly file a lawsuit or file separate lawsuits against the insured for bodily injury or property damage that occurred.

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Subrogation and Salvage

Directions: Fill in the blanks in the following statement using the terms provided.

litigation	**paid**
mitigation	**percentage**
owed	**recovery**

1. Success of the subrogation unit is generally measured as a percentage of the losses paid that are subject to recovery.

Directions: Identify each of the following statements as True or False.

1. A subrogation clause grants the right to the insurance company to collect from an at-fault party the money the insurance company paid to or on behalf of the policyholder, unless the policyholder has waived their right of recovery, which is usually required to be waived prior to a loss.

True **False**

2. The condition/requirement for an insured to waive their subrogation rights is the same in all liability policies.

True **False**

3. Property that has not been totally lost or destroyed and which retains some salvage value will apply directly to that claim's loss adjustment calculation.

True **False**

4. Insurance companies may have an option, according to loss conditions, to take all or part of damaged property as salvage.

True **False**

Special Investigations Unit

Directions: Fill in the blanks using the terms provided.

covered	**not covered**
hard	**payment**
legitimate	**soft**
misrepresented	**waivers**

1. Hard fraud occurs when an insured or claimant deliberately plans or create a loss that is covered by an insurance policy in order to receive payment.

2. Soft fraud occurs when the insured or claimant exaggerates an otherwise legitimate claim.

Directions: Circle True or False related to the following statements.

1. A SIU (special investigation unit) is comprised of law enforcement officers who have sophisticated interrogation skills.

True **False**

2. With sophisticated technologies and skilled investigators, the SIU works to identify, prevent, and deter suspect claims.

True **False**

3. All state departments require insurance companies to have a formal SIU with protocols in place for sharing fraud information with other insurance companies.

True **False**

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Litigation Management

Directions: Select the accurate statements regarding litigation.

- ☐ If the adjuster makes the decision to litigate, all responsibility and control of the claim file is given to the defense counsel except when outside counsel is used.
- ☐ Outside counsel have greater control of expenses, compared to inside counsel, and are given cases that are easily billed by the hour and resolved quickly.
- ☐ Inside counsel have less control of expenses as they have taken on all claims management responsibility for handling complex and time-consuming cases that have been abandoned by the adjuster.
- ☑ The adjuster makes the decision as to when to settle, when to litigate, and/or when to make use of an alternative dispute resolution, and maintains the control of the file.

Bad Faith

Directions: Check all that apply to the following statements related to bad faith.

- ☑ Established in common law.
- ☑ Often involves an insurer's failure to pay the insured's claim or the claim brought by a third party
- ☑ Use of an improper standard to deny a claim
- ☐ Honesty in a party's conduct during the contract or agreement

Catastrophe Planning

Directions: Check all the factors that impact the insurance company's CAT plans.

- ☑ Type of business written
- ☐ Culture of insurance company
- ☑ Size of insurance company
- ☑ Type of claims the insurance company expects to receive
- ☐ Number of employees in the underwriting department
- ☑ Geographic location of insurance company
- ☑ Severity of claims expect to receive

Claims Technology

Directions: Circle True or False related to the following statements.

1. Claims systems typically mirror the underwriting process.

True **False**

2. The claims system enables the company to manage the process from first notice to settlement.

True **False**

3. Claims systems are established to respond to liability claims only.

True **False**

Directions: List three examples of documents that would be collected, stored, and managed as part of the claim process.

1) emails
2) letters
3) notes from phone calls

Additional answers: estimates, contracts, legal notes, photos, medical report, expert reports.

Directions: Match the claims transaction on the left to its description on the right.

A. Case reserve	**B** The amount paid
B. Paid loss	**C** Expenses that are directly associated with an individual claim
C. Allocated loss adjustment expense	**A** Amount the insurance company puts aside for a claim

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Section 5: Product Distribution

Corporate Marketing

Knowledge Check

Directions: What are five important branding factors creatives consider when building a brand? How are these determined in the development process? Which media avenues do you think best support brand awareness?

Branding Factors

1. **Differentiation:** The company and brand must be able to be identifiably differently than others in the marketplace that offer similar products.
2. **Recollection:** The brand must make an impact visually and mentally on consumers.
3. **Scalability:** The brand identity must be able to grow and change as the company evolves.
4. **Complementary touch-points:** No matter what advertising medium is used, each touch-point must complement the brand.
5. **Applicability:** The brand identity must be very clear for those engaging in content creation.

Media Avenues

Fliers and brochures

Billboards

TV and radio

Internet marketing

Social media

Blogs, videos, and vlogs

SEO

Distribution

Knowledge Check

Directions: Name the four different distribution methods. Next, choose two and defend how you would combine them together to maximize benefits and manage cost, control, market penetration, and scalability.

Sample Answers:

1. **Independent agency system:** The use of the independent agency system as a means of distribution is extremely effective when entering into a new territory or expanding within an existing territory. Independent agents typically have a presence in their communities as well as existing, valuable relationships with policyholders, which can be leveraged to afford the company the opportunity to get the market penetration it is looking for.

2. **Exclusive agents:** Since no other companies are represented by these exclusive agents, there is no competition for business within the agency. The use of exclusive agents as the desired distribution method requires the company to offer a broad array of products and maintain competitive pricing for its agents to survive. Sales force turnover can be very high when the company's competitive market position is severely impacted as a result of rate increases.

3. **Direct marketing:** The product must either have broad appeal or there must be a means of preselecting customers. Direct marketing requires solicitation efforts that are focused on selected customers. These are generally customers that have a high tendency to purchase coverage on a direct basis and includes both outbound and inbound calls.

4. **Online distribution:** In order to effectively distribute products online, a robust automated quoting system must be developed. This type of distribution system generally lends itself to personal lines coverages.

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Relationship Management

Knowledge Check

Directions: What makes a particular agency a good prospect for an insurance company to partner with in terms of product distribution? Name at least three important aspects of a prospective independent agency.

Sample Answers:

1. Competent leadership and management
2. Effective use of automation
3. Track record of business success
4. Identifiable sales culture
5. Agency marketing plan
6. Knowledgeable and professional staff
7. Commitment to the company
8. Perpetuation
9. Timely accounting practices

Policyholder Services

Knowledge Check

Directions: How do centralized services support agencies in giving access and good service to clients? How can they hinder access and service?

Centralized Services Support:

Redirect resources to production of new business

Focus on larger clients

Enhanced customer service due to 24/7 capabilities

Post-disaster resources

Centralized Services Hinderances:

Cost to the agency

Extent of services offered

Confusion created with policyholder

Appearance that agency is cutout of the business equation

Customer builds brand loyalty with the company and not the agency

Inability to service all of an account because some policies may be written with another company

Technology

Knowledge Check

Directions: Compare and contrast the kinds of technology used by the marketing department to the technologies used by the sales group.

Sample Answers:

Marketing: Leadership can evaluate where production is the strongest, where additional advertising or training resources are best spent and where financial incentives such as supplemental commission are best used. External data can be purchased that shows the number of customers, amount of premium and other similar metrics across various categories. By comparing a company's own data with that of industry data, leadership can understand market share at a granular level and redirect focus toward the largest areas of potential customers.

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Sales: This type of system evaluates the performance of each producer by line of business or other metrics and provides information about submission activity, quoting success, new premium, and retention levels, and possibly other information such key contacts in the agency, company services that the agent is using, individual incentives, and the VIP status of the agency.

Section 5: Self-Quiz

Corporate Marketing and Sales Management

Directions: Name one of the first questions to be answered for sales management?

1. **Who is the customer?**

Corporate Marketing

Directions: Circle True or False related to the following statement.

2. Brand identity is the collection of the elements that make the company the same in the marketplace.

True **False**

Directions: What is the term used to describe the sharing of advertising Cody's with its agency distribution network?

3. **cooperative advertising**

Distribution

4. Select the factors considered when deciding the methods or methods of distribution. Select all that apply.
   - ☐ Control
   - ☐ Loss ratio
   - ☐ Timely accounting practices
   - ☐ Competent management
   - ☐ Desired market penetration

5. Some companies may use multiple distribution methods including independent agents, exclusive agents, and online sales.

True **False**

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Relationship Management

6. An insurance company's expectation of an agency is for the agency's track record to indicate:
   - [x] profitable growth, high retention rates, and low loss ratios
   - [ ] slow growth, low retention rates, and low loss ratios
   - [ ] fast growth, low retention rates, and low loss ratios
   - [ ] profitable growth, low hit ratio, and low retention

7. Select the most accurate statement that includes some of an insurance company's expectations of an agency.
   - [ ] Assertive producers who are more focused on sales than retention
   - [ ] Producers and staff that effectively use automation even though they have a low close ratio
   - [x] Assertive and productive producers and a professional staff who have knowledge of the insurance company's appetite and who effectively use automation
   - [ ] Professional staff more focused on sales than on front-line underwriting and retention

8. Select the statement that most accurately describes the agency appointment process.
   - [ ] In order to meet production goals, appoint as many agents as possible to saturate the territory, and if asked, provide assistance.
   - [ ] In order to meet production goals, appoint only those agents that are willing to do book rollovers and contact the assigned underwriters to provide assistance to that agency.
   - [x] After conducting a territory analysis, identify and contact the appropriate number of qualified agents and assist with the appointment process.
   - [ ] Identify the number of agents needed to achieve territory saturation and appoint an agency that has the number of needed producers to achieve that goal.

9. Which of the following is true regarding maintaining an agency's relationship?
   - [ ] If an appointed agency has problems/issues with the insurance company, always side with the agency principals in order to maintain the relationship.
   - [ ] If an underwriter brings up an issue about an agent, don't get involved so as not to jeopardize the marketing rep's relationship with the agency.
   - [ ] After the appointment process, don't bring up sales goals to the agency principals so as not to offend them.
   - [x] After the appointment process, meet with the agency principals and staff to discuss quoting, issuance, and product challenges.

Directions: Circle True or False related to the following statements in regard to an evaluation of an agency.

1. If an agency does not meet production goals, identify the cause of the issue, help agents identify new sources of business, and offer sales and marketing assistance.

True **False**

2. If an agency has a poor loss ratio, rehabilitation may include re-underwriting all or a portion of the agent's book of business.

True **False**

3. If an agency has a low loss ratio, identify factors that may have contributed and offer risk management techniques.

True **False**

4. If a review indicates an agency has low retention, recommend termination.

True **False**

5. Termination of an agency is recommended only when an agency fails to meet production goals.

True **False**

Policyholder Services

Directions: Indicate which of the following are typically included as services provided to agents and brokers of an insurance company.

1. Access to insurance company manuals, quick reference guides, appetite guides, insurance company specific marketing and sales materials

Included **Not Included**

2. Access to the agency's book of business and production reports; access to the agent's policyholder accounts, such as policies, billing, certain types of claim information, etc.

Included **Not Included**

3. Access to other agencies' books of business, policyholder information, etc.

Included **Not Included**

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4. Access to mobile apps

Included **Not Included**

5. Certain types of education and training

Included **Not Included**

Directions: Check which of the following is an accurate statement in regard to electronic interfaces?

- ☐ Electronic billing and electronic fund transfers for premium payment are a mandatory policyholder requirement.
- ☑ Many insurance companies offer client interface to allow policyholders to access their account information and complete certain transactions.
- ☐ Electronic fund transfers for payment of claims is a mandatory policyholder requirement.
- ☐ All policies and insurance cards are electronically distributed by all insurance. Paper copies are distributed at an additional cost.

Directions: Indicate which of the following is true in regard to Service Centers.

1. An advantage is that service centers are not centralized.

True **False**

2. A benefit is that the use of a service center allows an agency to redirect resources to production and also to focus on larger clients.

True **False**

3. A benefit is that service centers are typically accessible to clients 24/7.

True **False**

4. There is no fee/cost/expense to the agency for the use of a service center.

True **False**

5. There are no licensing requirements involved for up-selling or cross-selling.

True **False**

Directions: Select the statement that most accurately describes services provided by most insurance companies to their policyholders.

- ☐ Most insurance companies will provide post-event disaster services to a policyholder for a fee, but only for certain types of covered disasters.
- ☐ Many insurance companies will offer privacy and security tips for free to a commercial lines policyholder who has purchased a cyber policy, but none to a homeowner.
- ☑ Many insurance companies will offer, at no charge, safety tips, and also provide severe weather alerts via email, text, or other electronic communication.
- ☐ Many insurance companies will offer and provide auto and driver safety tips and discounts, but only to those who are using telematics.

Technology

1. CRM system evaluates the performance of each producer.

True **False**

2. Electronic mailbox uploads application data from the agency's system directly to the carrier's system.

True **False**

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Appendix

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Exam Preparation

For many learners, exam preparation is stressful. Please keep in mind that the most important measure of your knowledge will be witnessed in your service to your organization. Think of the exam as a tool. Use it to come to an understanding of what you know, how it affects your work, and what more you would like to know to have even greater success in the workplace.

The exam period is two hours long. You are required to earn a minimum of 140 out of 200 possible points. Questions appear in the same order as the presentation of the topics.

Remain aware of the time as you take the exam. Pace yourself and be aware that unanswered questions are considered incorrect.

Self-Quiz and Answer Key

Use your browser to access a downloadable Self-Quiz Answer Key at **scic.com/ICOresources** for each section.

The Self-Quizzes offer a variety of brief activities to help you become more familiar with the content in this Insurance Company Operations learning guide. Check your answers to gain confidence in your understanding of the concepts and details presented in this course.

Study Techniques

Here are some techniques you can use to help you prepare for the end-of-course exam. Apply the same techniques to each section in your learning resource guide.

1. Re-read the Introduction.

2. Review each Learning Objective.

3. Try changing each heading and subheading into a question, and then answer the question. For example:

   Heading: Risk Tolerance and Risk Appetite

   Question: What is Risk Tolerance and Risk Appetite?

4. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific learning objective.

5. Check your answers you gave for each Knowledge Check. Consider ways to improve your original answers.

6. Re-read the summary at the end of each section.

7. Review any comments, highlights, or notes you made in each section.

8. Build mind maps to find the connections among the concepts presented in the learning guide.

9. Rewrite important ideas in your own words. Find ways to relate those ideas to your own work experiences.

10. Make flash-cards to help you review important vocabulary.

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Sample Exam Items

The end-of-course exam consists of short-response questions.

Sample 1

There are various types of uses of reinsurance. Describe excess of loss reinsurance and identify two ways it applies. (5 points)

Acceptable answers:

(non-proportional) - an agreement to share specified losses.

And

The reinsurer indemnifies the ceding company (primary insurance company) for the amount of loss in excess of a specified retention.

Or

The retention amount can be stated as either a dollar amount or a percentage amount.

Or

The reinsurer does not participate in losses until a loss exceeds the amount retained by the primary insurance company.

Sample 2

Claims reporting is the first step in the claims process. There are various goals and significance related to proper reporting. Prompt reporting is essential. What are two goals for timeliness and accuracy of reporting? (6 points)

Acceptable answers:

Ability to stabilize and mitigate quickly

And

Preserve the details for accuracy and completeness

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Glossary of Terms

Active Approach to Culture Development – Executive Management Team is deliberate with creating the culture

Adverse Development – upward adjustments that must be made to loss expenses when claims are higher than reserves

Agile Approach – replaces the large upfront investment and the long delivery timelines with a more iterative approach

Allocated Loss Adjustment Expenses (ALAE) – expenses that are directly assigned to or arise from a particular claim

Bad Faith – an insurance company's unreasonable and unfounded refusal to provide coverage in violation of the duties of good faith and fair dealing owed to the insured

Base Technology – refers to technology that is necessary as a requirement of conducting business

Bulk Reserve – the gross IBNR that actuaries are responsible for determining; comprised of adverse development, reopened claims reserve, IBNR, and RBNR

Capital – a large sum of money used to start a business, or which is invested to make more money

Case Reserve – the best estimate of what the claim will ultimately cost when the claim is initially filed

Catastrophe (CAT) Management – the use of CAT models for pricing and underwriting, as well as solvency and capital management

Ceding Company – the primary insurance company that is transferring part of its liability to another insurance company

Combined Ratio – the primary measure of the profitability of a book of business

Comparative Negligence – states that when an accident occurs, the fault and/or negligence of each party involved is based on their respective contributions to the accident

Contractual Liability – arises out of the assumption of liability by the parties to the contract

Cooperative Advertising – when a company shares advertising costs with its agency distribution network

Correlation of Risk – the likelihood that a given catastrophe or different catastrophes will affect more than one territory or state

Detrimental Reliance – occurs when one party is reasonably induced to rely on a promise made by another party

Direct Marketing – uses insurance company employees to sell its products to consumers

Discretionary Pricing – refers to the ability of an individual underwriter to credit or debit an account or a portion of an account based on the merits of the risk, program or agency segmentation

Enterprise Risk Management (ERM) – is used as part of the review of external threats. ERM focuses not only on external issues that can impact a company from a competitor standpoint, but also the likelihood of other occurrences that may have serious impact on its ability to meet strategic goals

Estoppel – a legal principle that prevents someone from arguing something or asserting a right that contradicts what they previously said or agreed to by law

Exclusive Agents – agents that represent only one company or company group

Executive Management Team (EMT) – performs critical functions within leadership framework; responsible for managing the company's core business operations as a whole

Exposure Management – process that the company may use to reduce exposure by nonrenewing policies in areas where the company may have too many policies

Extrinsic Evidence Rule – outside evidence and information not contained in the policy or lawsuit that may be considered in determining whether coverage will apply

First-party Claims – losses suffered by the insured

Frequency – large numbers of losses

General Damages – damages that are not easily quantifiable, such as pain and suffering, which are typically assigned a dollar amount by a jury

General Ledger – part of accounting structure that includes lines for every transaction that takes place as a company begins to do business

Incurred But Not Reported (IBNR) – claims that have occurred but have not been reported to the carrier

Independent Agency System – made up of individual insurance agencies that are independently owned

Insured – consumer of the insurance product

Joint and Several Liability – when responsibility is shared by two or more parties to a lawsuit and the wronged party has the ability to collect damages from any or all parties involved

Loss Cost Multiplier (LCM) – contemplates underwriting expenses and desired profit

Loss Ratio – measures the portion of each premium dollar that is used to pay losses

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Market Conduct – the behavioral characteristics of a company operating in a certain market or industry; governed by guidelines and parameters set by regulators

MIHCs – Mutual Insurance Holding Companies

Multivariate Rating – rating based on the relationship between multiple variables at the same time

Mutual Holding Company – non-stock corporation, which is the holding company parent

Mutual Insurance Company – an incorporated insurance company owned by policyholders

Negligence – liability based on the failure to exercise the appropriate amount of care given certain circumstances

Non-Waiver Agreement – a bilateral document, in the form of a contract or agreement, acknowledging that there is potentially an issue with coverage, but that the investigation of the claim will proceed while the issue is being resolved

Online Distribution – a form of direct marketing that takes place via the internet

Passive Approach to Culture Development – allows a culture to be created over time

Policyholder Surplus – essentially the amount of money remaining after an insurer's liabilities are subtracted from its assets

Pooling – simply aggregating all of the premiums for a specific line of business

Predictive Modeling – modeling and data analysis techniques used to discover predictive patterns and relationships

Production Underwriters – underwriters that travel to different insurance agencies to develop agent relationships and promote the company's products and services

Pro-Forma – a forward-looking document that forecasts anticipated results from objectives and priorities of the financial projections

Proof of Loss – a sworn statement by the claimant that is signed an notarized which includes an inventory of the lost or damaged property and its value

Rating Agencies – assist regulators, agents and consumers by setting financial standards and assigning alpha numerical ratings related to those standards

Ratemaking – calculating premiums that policyholders should pay for their insurance

Reciprocal Insurance Company – group of individuals or organizations who join together into an unincorporated association

Reinsurance – a contractual arrangement in which one insurance company agrees to insure the assumed liabilities of another insurance company

Reinsurer – an insurance company that accepts the liabilities from a ceding company for a stated premium

Reopened Claim Reserve – the provision for future adjustments of case reserves

Reported But Not Recorded (RBNR) – claims that have been reported to the insurer but have not yet been recorded on the insurer's books

Reservation of Rights (ROR) Letter – a unilateral document sent by the insurance company to the policyholder advising them that although there is a question about whether or not a loss is covered, the insurance company will proceed with the investigation of the claim, but reserves the right to deny the claim at a later date

Reserves – the amount a company must set aside to pay all future benefits for obligations that already exist; considered liabilities on a company's financial statements

Risk Appetite – the maximum amount of risk the organization is willing to accept while striving to meet its strategic and tactical plans

Risk Tolerance – the maximum amount of risk a person or organization is willing to assume

Salvage – the sale of an insured's damaged goods by an insurance company after the insured has been indemnified for the value of the loss

Severity – large dollar losses

Special Damages – damages which compensate a party for those losses that are quantifiable, such as medical bills or property damage

Spread of Risk – created when a company writes in all areas of a single state or in multiple states

Statutory Accounting Principles (STAT) – set of accounting regulations prescribed by the NAIC for the preparation of the insurance company's financial statements with the primary goal of assisting regulators in monitoring an insurance company's solvency

Statutory Liability – liability created by law which may establish a standard of care

Strategic Business Plan – the formulated roadmap that describes how the company executes its chosen strategy

Strategic Planning – the process used to create the strategic plan; may include an Enterprise Risk Analysis and/or SWOT analysis

Strategic Technology – refers to technology that is unique, dependent upon, and intended to enable an insurance carrier's chosen operating model

Strategy – a thoughtful, deliberate plan of action

Strategy Formulation – the first step in the process where the EMT decides what it wishes to build and asks: where are we now, where are we going, and how will we get there?

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Strategy Implementation – strategy that is put into action to implement a company's objectives and goals

Stock Holding Company – subsidiary of the mutual holding company

Stock Insurance Company – an incorporated insurance company owned by stockholders

Stockholders – investors in the organization

Sustainable Competitive Advantage – all things that will distinguish the company from other companies In the eyes of its target customers

SWOT Analysis – focuses on identifying strengths, weaknesses, opportunities, and strengths

Third-party Claims – involve claimants who are not insureds but have been injured or had property damaged by an insured

Topline Growth – increase in written premium month over month

Tort – a civil wrong other than breach of contract

Treaty Reinsurance – occurs whenever the ceding company agrees to cede all risks within a specific class of insurance policies to the reinsurance company

Unallocated Loss Adjustment Expenses (ULAE) – expenses not specifically allocated or charged to a particular claim

Underwriting Expense Ratio – measures the portion of each premium dollar used to pay for a company's operating expenses

Waterfall Approach – characterized by a large upfront investment, a period of building systems, and eventually — sometimes years later — a large technology release that unveils the finished product

Yellow Books – detailed financial statements provided by insurers to rating agencies that has a required yellow cover