

# PRINCIPLES OF RISK MANAGEMENT AND INSURANCE

## The Pearson Series in Finance

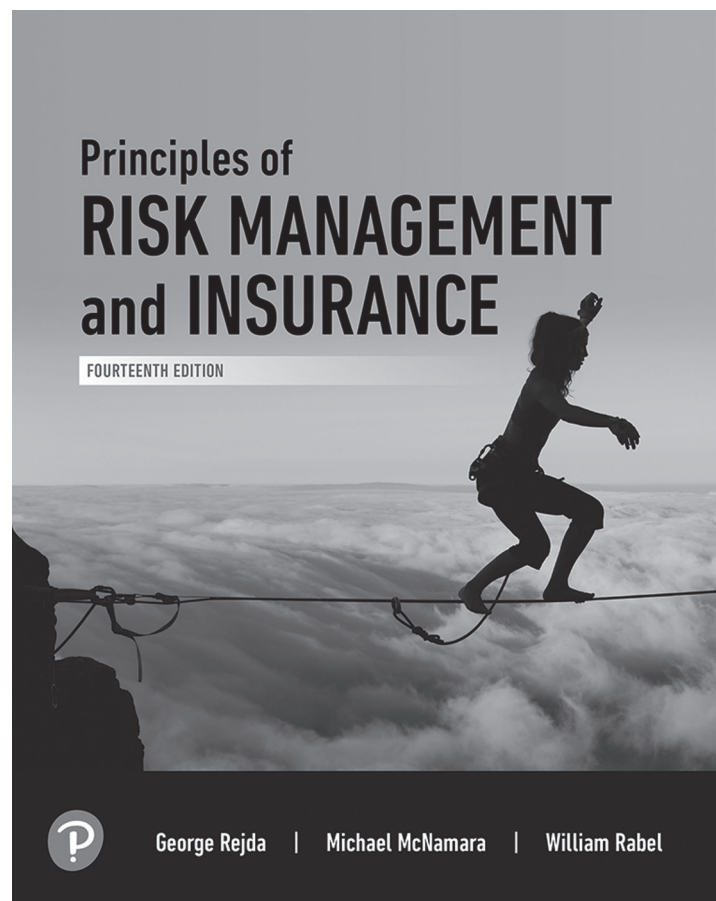
---

**Berk/DeMarzo***Corporate Finance\***Corporate Finance: The Core\****Berk/DeMarzo/Harford***Fundamentals of Corporate Finance\****Brooks***Financial Management: Core Concepts\****Copeland/Weston/Shastri***Financial Theory and Corporate Policy***Dorfman/Cather***Introduction to Risk Management and Insurance***Eakins/McNally***Corporate Finance Online\****Eiteman/Stonehill/Moffett***Multinational Business Finance\****Fabozzi***Bond Markets: Analysis and Strategies***Foerster***Financial Management: Concepts and Applications\****Frasca***Personal Finance***Gitman/Zutter***Principles of Managerial Finance\***Principles of Managerial Finance—Brief Edition\****Haugen***The Inefficient Stock Market: What Pays Off and Why**Modern Investment Theory***Holden***Excel Modeling in Corporate Finance**Excel Modeling in Investments***Hughes/MacDonald***International Banking: Text and Cases***Hull***Fundamentals of Futures and Options Markets**Options, Futures, and Other Derivatives***Keown***Personal Finance: Turning Money into Wealth\****Keown/Martin/Petty***Foundations of Finance: The Logic and Practice of**Financial Management\****Madura***Personal Finance\****Marthinsen***Risk Takers: Uses and Abuses of Financial Derivatives***McDonald***Derivatives Markets Fundamentals of Derivatives Markets***Mishkin/Eakins***Financial Markets and Institutions***Moffett/Stonehill/Eiteman***Fundamentals of Multinational Finance***Nofsinger***Psychology of Investing***Pennacchi***Theory of Asset Pricing***Rejda/McNamara***Principles of Risk Management and Insurance***Smart/Gitman/Joehnk***Fundamentals of Investing\****Solnik/McLeavey***Global Investments***Titman/Keown/Martin***Financial Management: Principles and Applications\****Titman/Martin***Valuation: The Art and Science of Corporate Investment**Decisions***Weston/Mitchell/Mulherin***Takeovers, Restructuring, and Corporate Governance*

\*Denotes titles with MyFinanceLab. Log onto [www.myfinancelab.com](http://www.myfinancelab.com) to learn more.

# Principles of **RISK MANAGEMENT AND INSURANCE**

GEORGE E. REJDA  
MICHAEL J. MCNAMARA  
WILLIAM H. RABEL



Vice President, Business, Economics, and UK Courseware:  
Donna Battista  
Director of Portfolio Management: Adrienne D'Ambrosio  
Director, Courseware Portfolio Management: Ashley Dodge  
Senior Editor: Neeraj Bhalla  
Vice President, Product Marketing: Roxanne McCarley  
Product Marketer: Kaylee Carlson  
Product Marketing Assistant: Marianela Silvestri  
Manager of Field Marketing, Business Publishing: Adam Goldstein  
Executive Field Marketing Manager: Thomas Hayward  
Vice President, Production and Digital Studio, Arts and  
Business: Etain O'Dea  
Director, Production and Digital Studio, Business and Economics:  
Ashley Santora  
Managing Producer, Business: Alison Kalil  
Senior Content Producer: Gladys Soto

Operations Specialist: Carol Melville  
Design Lead: Kathryn Foot  
Manager, Learning Tools: Brian Surette  
Senior Learning Tools Strategist: Emily Biberger  
Managing Producer, Digital Studio and GLP: James Bateman  
Managing Producer, Digital Studio: Diane Lombardo  
Digital Studio Producer: Melissa Honig  
Digital Studio Producer: Alana Coles  
Digital Content Team Lead: Noel Lotz  
Digital Content Project Lead: Miguel Leonarte  
Full Service Project Management: Heather Winter, Pearson CSC  
Interior Design: TO COME  
Cover Design: Pearson CSC  
Cover Art: TO COME  
Printer/Binder: LSC Communications, Inc./location  
Cover Printer: Phoenix Color/Hagerstown

Microsoft and/or its respective suppliers make no representations about the suitability of the information contained in the documents and related graphics published as part of the services for any purpose. All such documents and related graphics are provided "as is" without warranty of any kind. Microsoft and/or its respective suppliers hereby disclaim all warranties and conditions with regard to this information, including all warranties and conditions of merchantability, whether express, implied or statutory, fitness for a particular purpose, title and non-infringement. In no event shall Microsoft and/or its respective suppliers be liable for any special, indirect or consequential damages or any damages whatsoever resulting from loss of use, data or profits, whether in an action of contract, negligence or other tortious action, arising out of or in connection with the use or performance of information available from the services.

The documents and related graphics contained herein could include technical inaccuracies or typographical errors. Changes are periodically added to the information herein. Microsoft and/or its respective suppliers may make improvements and/or changes in the product(s) and/or the program(s) described herein at any time. Partial screen shots may be viewed in full within the software version specified.

Microsoft® and Windows® are registered trademarks of the Microsoft Corporation in the U.S.A. and other countries. This book is not sponsored or endorsed by or affiliated with the Microsoft Corporation.

Copyright © 2020, 2017, 2014 by Pearson Education, Inc. or its affiliates. All Rights Reserved. Manufactured in the United States of America. This publication is protected by copyright, and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise. For information regarding permissions, request forms, and the appropriate contacts within the Pearson Education Global Rights and Permissions department, please visit [www.pearsoned.com/permissions/](http://www.pearsoned.com/permissions/).

Acknowledgments of third-party content appear on the appropriate page within the text -OR- on page xx, which constitutes an extension of this copyright page.

PEARSON, ALWAYS LEARNING, and MYLAB are exclusive trademarks owned by Pearson Education, Inc. or its affiliates in the U.S. and/or other countries.

Unless otherwise indicated herein, any third-party trademarks, logos, or icons that may appear in this work are the property of their respective owners, and any references to third-party trademarks, logos, icons, or other trade dress are for demonstrative or descriptive purposes only. Such references are not intended to imply any sponsorship, endorsement, authorization, or promotion of Pearson's products by the owners of such marks, or any relationship between the owner and Pearson Education, Inc., or its affiliates, authors, licensees, or distributors.

#### Library of Congress Cataloging-in-Publication Data

Cataloging-in-Publication Data is available on file at the Library of Congress.

10 9 8 7 6 5 4 3 2 1



ISBN 10: 0-13-5180864  
ISBN 13: 978-0-13-5180860

# CONTENTS

Preface xv

## CHAPTER 1 RISK AND ITS TREATMENT 1

Definitions of Risk 2  
Chance of Loss 4  
Peril and Hazard 4  
Classification of Risk 5  
Major Personal Risks and Commercial Risks 7  
Burden of Risk on Society 12  
Techniques for Managing Risk 13  
Summary 17 ■ Key Concepts and Terms 18 ■ Review  
Questions 19 ■ Application Questions 19 ■ Internet Resources 20 ■ Selected  
References 21 ■ Notes 21

### Case Application 17

INSIGHT 1.1: WHAT ARE YOUR CHANCES OF NOT BEING ABLE TO EARN AN INCOME? CALCULATE YOUR  
PERSONAL DISABILITY QUOTIENT 9

INSIGHT 1.2: CAREERS IN RISK MANAGEMENT AND INSURANCE 16

## CHAPTER 2 INSURANCE AND RISK 22

Definition of Insurance 23  
Basic Characteristics of Insurance 23  
Law of Large Numbers 24  
Characteristics of an Ideally Insurable Risk 25  
Two Applications: The Risks of Fire and Unemployment 27  
Adverse Selection and Insurance 29  
Insurance and Gambling Compared 29  
Insurance and Hedging Compared 29  
Types of Insurance 30  
Benefits of Insurance to Society 34  
Costs of Insurance to Society 35  
Summary 40 ■ Key Concepts and Terms 40 ■ Review  
Questions 41 ■ Application Questions 41 ■ Internet Resources 41 ■ Selected  
References 42 ■ Notes 42

### Case Application 39

INSIGHT 2.1: THE LIES TOLD TO AUTO INSURERS 36

INSIGHT 2.2: SHOCKING CASES OF INSURANCE FRAUD 37

### Appendix: Basic Statistics and the Law of Large Numbers 44

Probability and Statistics 44  
Law of Large Numbers 45  
Notes 46

**CHAPTER 3 INTRODUCTION TO RISK MANAGEMENT 47**

Meaning of Risk Management 48  
 Objectives of Risk Management 49  
 Steps in the Risk Management Process 49  
 Benefits of Risk Management 60  
 Personal Risk Management 61  
 Summary 63 ■ Key Concepts and Terms 64 ■ Review Questions 64 ■ Application Questions 64 ■ Internet Resources 65 ■ Selected References 66 ■ Notes 66

**Case Application 62**

INSIGHT 3.1: VERMONT LEADS U.S. CAPTIVE DOMICILES 54

INSIGHT 3.2: WHY DO EMPLOYERS SELF-FUND THEIR HEALTH PLANS? 55

**CHAPTER 4 ENTERPRISE RISK MANAGEMENT 68**

Enterprise Risk Management 70  
 Benefits of Enterprise Risk Management Programs 77  
 Insurance Market Dynamics 78  
 Loss Forecasting 81  
 Financial Analysis in Risk Management Decision Making 84  
 Other Risk Management Tools 86  
 Summary 89 ■ Key Concepts and Terms 90 ■ Review Questions 91 ■ Application Questions 91 ■ Internet Resources 91 ■ Selected References 92 ■ Notes 92

**Case Application 89**

INSIGHT 4.1: WEATHER FUTURES AND OPTIONS: FINANCIAL TOOLS THAT PROVIDE A MEANS OF TRANSFERRING RISK ASSOCIATED WITH ADVERSE WEATHER EVENTS 82

**CHAPTER 5 TYPES OF INSURERS AND MARKETING SYSTEMS 94**

Overview of Private Insurance in the Financial Services Industry 95  
 Types of Private Insurers 96  
 Agents and Brokers 101  
 Types of Marketing Systems 104  
 Summary 109 ■ Key Concepts and Terms 109 ■ Review Questions 109 ■ Application Questions 110 ■ Internet Resources 110 ■ Selected References 111 ■ Notes 112

**Case Application 108**

INSIGHT 5.1: SHOW ME THE MONEY—HOW MUCH CAN I EARN AS AN INSURANCE SALES AGENT? 103

**CHAPTER 6 INSURANCE COMPANY OPERATIONS 113**

Insurance Company Operations 114  
 Rating and Rate Making 114  
 Underwriting 115  
 Production 118  
 Claims Settlement 119  
 Reinsurance 121  
 Investments 127  
 Other Insurance Company Functions 129

Summary 130 ■ Key Concepts and Terms 131 ■ Review Questions 131 ■ Application Questions 132 ■ Internet Resources 132 ■ Selected References 133 ■ Notes 134

**Case Application 130**

INSIGHT 6.1: HOME OWNER'S FAILURE TO COOPERATE YIELDS DENIED CLAIM 121

INSIGHT 6.2: BE A SMART CONSUMER—CHECK THE CLAIMS RECORD OF INSURERS BEFORE YOU BUY 122

## **CHAPTER 7 FINANCIAL OPERATIONS OF INSURERS 135**

Property and Casualty Insurers 136

Life Insurance Companies 141

Rate Making In Property and Casualty Insurance 143

Rate Making in Life Insurance 147

Summary 148 ■ Key Concepts and Terms 149 ■ Review Questions 150 ■ Application Questions 150 ■ Internet Resources 151 ■ Selected References 151 ■ Notes 151

**Case Application 148**

INSIGHT 7.1: HOW PROFITABLE IS THE PROPERTY AND CASUALTY INSURANCE INDUSTRY? 142

## **CHAPTER 8 GOVERNMENT REGULATION OF INSURANCE 153**

Reasons for Insurance Regulation 154

Historical Development of Insurance Regulation 155

Methods For Regulating Insurers 157

What Areas are Regulated? 158

State Versus Federal Regulation 164

Current Issues in Insurance Regulation 167

Insolvency of Insurers 170

Market Conduct Regulation 172

Summary 174 ■ Key Concepts and Terms 175 ■ Review Questions 175 ■ Application Questions 176 ■ Internet Resources 176 ■ Selected References 177 ■ Notes 177

**Case Application 174**

INSIGHT 8.1: THE PROS AND CONS OF CREDIT-BASED INSURANCE SCORES 173

## **CHAPTER 9 FUNDAMENTAL LEGAL PRINCIPLES 179**

Principle of Indemnity 180

Principle of Insurable Interest 183

Principle of Subrogation 185

Principle of Utmost Good Faith 185

Requirements of an Insurance Contract 187

Distinct Legal Characteristics of Insurance Contracts 189

Law and the Insurance Agent 190

Summary 192 ■ Key Concepts and Terms 194 ■ Review Questions 194 ■ Application Questions 194 ■ Internet Resources 195 ■ Selected References 195 ■ Notes 195

**Case Application 192**

INSIGHT 9.1: CORPORATION LACKING INSURABLE INTEREST AT TIME OF DEATH CAN RECEIVE LIFE INSURANCE PROCEEDS 184

INSIGHT 9.2: AUTO INSURER DENIES COVERAGE BECAUSE OF MATERIAL MISREPRESENTATION 186

INSIGHT 9.3: INSURER VOIDS COVERAGE BECAUSE OF MISREPRESENTATIONS IN  
PROOF OF LOSS 187

## CHAPTER 10 ANALYSIS OF INSURANCE CONTRACTS 196

Basic Parts of an Insurance Contract 197

Definition of “Insured” 199

Endorsements and Riders 200

Deductibles 200

Coinurance 203

Coinurance in Health Insurance 205

Other-Insurance Provisions 205

Summary 207 ■ Key Concepts and Terms 208 ■ Review Questions 208 ■ Application  
Questions 208 ■ Internet Resources 209 ■ Selected References 210 ■ Notes 210

Case Application 207

INSIGHT 10.1: HOW TO SAVE MONEY ON CAR INSURANCE 202

## CHAPTER 11 LIFE INSURANCE 211

Premature Death 212

Financial Impact of Premature Death on Different Types of Families 213

Amount of Life Insurance to Own 214

Types of Life Insurance 219

Variations of Whole Life Insurance 225

Other Types of Life Insurance 233

Summary 236 ■ Key Concepts and Terms 238 ■ Review Questions 238 ■ Application  
Questions 238 ■ Internet Resources 240 ■ Selected References 241 ■ Notes 241

Case Application 236

INSIGHT 11.1: CASH-VALUE LIFE INSURANCE AS AN INVESTMENT—DON’T IGNORE TWO POINTS 224

INSIGHT 11.2: BE A SAVVY CONSUMER—FOUR LIFE INSURANCE POLICIES TO AVOID 234

## CHAPTER 12 LIFE INSURANCE CONTRACTUAL PROVISIONS 243

Life Insurance Contractual Provisions 244

Dividend Options 250

Nonforfeiture Options 251

Settlement Options 254

Additional Life Insurance Benefits 258

Summary 263 ■ Key Concepts and Terms 264 ■ Review Questions 265 ■ Application  
Questions 265 ■ Internet Resources 266 ■ Selected References 267 ■ Notes 267

Case Application 263

INSIGHT 12.1: IS THIS DEATH A SUICIDE? 246

INSIGHT 12.2: SELECTION OF THE BEST DIVIDEND OPTION IN A PARTICIPATING WHOLE LIFE  
POLICY 252

INSIGHT 12.3: ACCELERATED DEATH BENEFITS: A REAL-LIFE EXAMPLE 261

INSIGHT 12.4: WHAT IS A LIFE SETTLEMENT? EXAMPLES OF ACTUAL CASES 262



**CHAPTER 13 BUYING LIFE INSURANCE 268**

Determining the Cost of Life Insurance 269

Rate of Return on Saving Component 272

Taxation of Life Insurance 274

Shopping for Life Insurance 275

Summary 279 ■ Key Concepts and Terms 279 ■ Review Questions 279 ■ Application Questions 280 ■ Internet Resources 280 ■ Selected References 281 ■ Notes 281

**Case Application 278****INSIGHT 13.1: BE CAREFUL IN REPLACING AN EXISTING LIFE INSURANCE POLICY 272****Appendix: Calculation of Life Insurance Premiums 282**

Net Single Premium 282

Net Annual Level Premium 284

Gross Premium 285

Policy Reserves 285

**Case Application 286**

Key Concepts and Terms 286 ■ Notes 286

**CHAPTER 14 ANNUITIES AND INDIVIDUAL RETIREMENT ACCOUNTS 287**

Individual Annuities 288

Types of Annuities 289

Taxation of Individual Annuities 296

Individual Retirement Accounts 297

Summary 303 ■ Key Concepts and Terms 304 ■ Review Questions 305 ■ Application Questions 305 ■ Internet Resources 305 ■ Selected References 306 ■ Notes 306

**Case Application 1 302****Case Application 2 303****INSIGHT 14.1: ADVANTAGES OF AN IMMEDIATE ANNUITY TO RETIRED WORKERS 290****INSIGHT 14.2: OPTIONAL VARIABLE ANNUITY BENEFITS TO MEET SPECIFIC NEEDS 293****INSIGHT 14.3: TEN QUESTIONS TO ANSWER BEFORE YOU BUY A VARIABLE ANNUITY 298****CHAPTER 15 INDIVIDUAL HEALTH INSURANCE COVERAGES 307**

Defects in the Healthcare System in the United States 308

Basic Provisions of the Affordable Care Act 312

Individual Medical Expense Insurance 318

Managed Care Plans 322

Health Savings Accounts 322

Long-Term Care Insurance 323

Disability-Income Insurance 327

Individual Health Insurance Contractual Provisions 330

Summary 332 ■ Key Concepts and Terms 334 ■ Review Questions 334 ■ Application Questions 335 ■ Internet Resources 335 ■ Selected References 336 ■ Notes 337

**Case Application 332****INSIGHT 15.1: HEALTH INSURANCE OPTIONS FOR COLLEGE STUDENTS UNDER THE AFFORDABLE CARE ACT 315**

## CHAPTER 16 EMPLOYEE BENEFITS: GROUP LIFE AND HEALTH INSURANCE 338

- Meaning of Employee Benefits 339
- Fundamentals of Group Insurance 340
- Group Life Insurance 342
- Group Medical Expense Insurance 343
- Managed Care Plans 344
- Affordable Care Act and Group Medical Expense Insurance 348
- Key Features of Group Medical Expense Insurance 350
- High-Deductible Health Plan With Savings Option 351
- Recent Developments in Employer-Sponsored Health Plans 352
- Group Medical Expense Contractual Provisions 355
- Group Dental Insurance 357
- Group Disability-Income Insurance 358
- Cafeteria Plans 358
- Summary 360 ■ Key Concepts and Terms 361 ■ Review Questions 362 ■ Application Questions 362 ■ Internet Resources 363 ■ Selected References 364 ■ Notes 364
- Case Application 360
- INSIGHT 16.1: HISTORY OF HEALTH MAINTENANCE ORGANIZATION 346
- INSIGHT 16.2: BASIC CHARACTERISTICS OF THE SMALL BUSINESS HEALTH OPTIONS PROGRAM (SHOP) 349

## CHAPTER 17 EMPLOYEE BENEFITS: RETIREMENT PLANS 365

- Fundamentals of Private Retirement Plans 366
- Types of Qualified Retirement Plans 370
- Defined-Benefit Plans 370
- Defined-Contribution Plans 373
- Section 401(K) Plan 374
- Section 403(B) Plan 377
- Simplified Employee Pension (SEP) 377
- Simple Ira Plan 377
- Profit-Sharing Plans 378
- Saver's Credit 379
- Retirement Plan Security 379
- Funding Agency and Funding Instruments 379
- Problems and Issues In Qualified Retirement Plans 380
- Summary 382 ■ Key Concepts and Terms 383 ■ Review Questions 384 ■ Application Questions 384 ■ Internet Resources 384 ■ Selected References 385 ■ Notes 385
- Case Application 382
- INSIGHT 17.1 SIX COMMON 401(K) MISTAKES 375

## CHAPTER 18 SOCIAL INSURANCE 387

- Social Insurance Programs 389
- Old-Age, Survivors, and Disability Insurance (OASDI) 390
- Types of Benefits 391
- Medicare 397
- Problems and Issues 401

Unemployment Insurance 404

Workers' Compensation 407

Summary 411 ■ Key Concepts and Terms 412 ■ Review Questions 412 ■ Application Questions 413 ■ Internet Resources 414 ■ Selected References 414 ■ Notes 415

Case Application 411

INSIGHT 18.1: POSTPONING SOCIAL SECURITY BENEFITS—KEY FACTORS TO CONSIDER 394

INSIGHT 18.2: TRY YOUR HAND AT SOCIAL SECURITY REFORM 403

## CHAPTER 19 THE LIABILITY RISK 417

Basis of Legal Liability 419

The Law of Negligence 419

Imputed Negligence 421

*Res Ipsa Loquitur* 422

Specific Applications of the Law of Negligence 422

Current Tort Liability Problems 425

Summary 434 ■ Key Concepts and Terms 435 ■ Review Questions 435 ■ Application Questions 436 ■ Internet Resources 437 ■ Selected References 437 ■ Notes 438

Case Application 434

INSIGHT 19.1 JUDICIAL HELLHOLES 2017–2018 428

## CHAPTER 20 AUTO INSURANCE 440

Overview of Personal Auto Policy 441

Part A: Liability Coverage 443

Part B: Medical Payments Coverage 447

Part C: Uninsured Motorists Coverage 449

Part D: Coverage For Damage to Your Auto 453

Part E: Duties After an Accident or Loss 459

Part F: General Provisions 460

Insuring Motorcycles and Other Vehicles 461

Summary 461 ■ Key Concepts and Terms 462 ■ Review Questions 462 ■ Application Questions 463 ■ Internet Resources 465 ■ Selected References 465 ■ Notes 465

Case Application 461

INSIGHT 20.1: PRIVATE PASSENGER AUTO INSURANCE REMAINS UNPROFITABLE FOR MANY INSURERS 442

INSIGHT 20.2: IN 5 STATES, 20% OR MORE OF DRIVERS HAVE NO INSURANCE; COUNTRYWIDE AVERAGE INCREASES 449

INSIGHT 20.3: THE FOUR TYPES OF RENTAL CAR INSURANCE, EXPLAINED 455

## CHAPTER 21 AUTO INSURANCE (CONTINUED) 467

Approaches for Compensating Auto Accident Victims 468

Auto Insurance for High-Risk Drivers 478

Cost of Auto Insurance 479

Shopping for Auto Insurance 483

Auto Insurance Emerging Issues 485

Summary 487 ■ Key Concepts and Terms 488 ■ Review Questions 488 ■ Application Questions 489 ■ Internet Resources 489 ■ Selected References 490 ■ Notes 490

**Case Application 487**

INSIGHT 21.1: FILING AN AUTO CLAIM WITH THE OTHER PARTY'S INSURANCE COMPANY 472

INSIGHT 21.2: PROTECT YOURSELF: INSURING YOUR TEEN DRIVER 481

INSIGHT 21.3: DISTRACTED DRIVING 486

**CHAPTER 22 HOMEOWNERS INSURANCE, SECTION I 492**

Overview of Homeowners Insurance 493

The Homeowners 3 Policy: Persons Insured 498

The Homeowner 3 Policy: Section I Coverages 498

The Homeowners 3 Policy: Section I Perils Insured Against 504

The Homeowners 3 Policy: Section I Exclusions 507

The Homeowners 3 Policy: Section I Conditions 508

The Homeowners 3 Policy: Section I and II Conditions 514

Summary 515 ■ Key Concepts and Terms 516 ■ Review Questions 516 ■ Application Questions 517 ■ Internet Resources 518 ■ Selected References 519 ■ Notes 519

**Case Application 515**

INSIGHT 22.1: YOUR RENTERS INSURANCE GUIDE: WHAT TO LOOK FOR WHEN SHOPPING FOR RENTERS INSURANCE 495

INSIGHT 22.2: HOW TO CREATE A HOME INVENTORY 509

INSIGHT 22.3: THE BIG GAP BETWEEN REPLACEMENT COST AND ACTUAL CASH VALUE CAN EMPTY YOUR WALLET 511

**CHAPTER 23 HOMEOWNERS INSURANCE, SECTION II 520**

Personal Liability Insurance and Medical Payments to Others Coverage 521

Section II Exclusions 524

Section II Additional Coverages 527

Section II Conditions 528

Endorsements to a Homeowners Policy 529

Cost of Homeowners Insurance 532

Suggestions for Buying a Homeowners Policy 534

Summary 537 ■ Key Concepts and Terms 537 ■ Review Questions 537 ■ Application Questions 538 ■ Internet Resources 539 ■ Selected References 539 ■ Notes 540

**Case Application 536**

INSIGHT 23.1: DOG BITES HURT, SO DO LAWSUITS 522

INSIGHT 23.2: FIVE INSURANCE MISTAKES TO AVOID . . . (AND STILL SAVE MONEY) 535

**CHAPTER 24 OTHER PROPERTY AND LIABILITY INSURANCE COVERAGES 541**

ISO Dwelling Program 542

Mobile Home Insurance 544

Inland Marine Floaters 544

Watercraft Insurance 545

Government Property Insurance Programs 547

Title Insurance 552

Personal Umbrella Policy 553

Summary 557 ■ Key Concepts and Terms 558 ■ Review Questions 558 ■ Application Questions 559 ■ Internet Resources 560 ■ Selected References 560 ■ Notes 561

Case Application 557

INSIGHT 24.1: DISPELLING MYTHS ABOUT FLOOD INSURANCE 551

INSIGHT 24.2: THE VITALS ON TITLE INSURANCE 553

INSIGHT 24.3: 10 REAL EXAMPLES OF UMBRELLA INSURANCE CLAIMS 555

## CHAPTER 25 COMMERCIAL PROPERTY INSURANCE 563

Commercial Package Policy 564

Building and Personal Property Coverage Form 565

Reporting Forms 569

Business Income Insurance 570

Other Commercial Property Coverages 573

Transportation Insurance 577

Businessowners Policy (BOP) 581

Summary 584 ■ Key Concepts and Terms 585 ■ Review Questions 586 ■ Application Questions 585 ■ Internet Resources 587 ■ Selected References 588 ■ Notes 588

Case Application 583

INSIGHT 25.1: EXAMPLES OF EQUIPMENT BREAKDOWN CLAIMS: RECENT PAID CLAIMS 575

## CHAPTER 26 COMMERCIAL LIABILITY INSURANCE 590

General Liability Loss Exposures 591

Commercial General Liability Policy 593

Employment Practices Liability Insurance 599

Workers Compensation Insurance 600

Commercial Auto Insurance 602

Aircraft Insurance 605

Commercial Umbrella Policy 606

Cyber Liability Insurance 608

Businessowners Policy 608

Professional Liability Insurance 610

Directors and Officers Liability Insurance 611

Summary 613 ■ Key Concepts and Terms 614 ■ Review Questions 615 ■ Application Questions 615 ■ Internet Resources 616 ■ Selected References 617 ■ Notes 617

Case Application 613

INSIGHT 26.1: GENERAL LIABILITY LAWSUIT EXAMPLES 593

INSIGHT 26.2: BEYOND PREVENTION: WORKERS COMPENSATION INSURANCE 601

INSIGHT 26.3: 10 MOST COMMON AND COSTLIEST SMALL BUSINESS CLAIMS 609

## CHAPTER 27 CRIME INSURANCE AND SURETY BONDS 619

The ISO Commercial Crime Insurance Program 620

Commercial Crime Coverage Form (Loss-Sustained Form) 621

Financial Institution Bonds 627

## XIV CONTENTS

### Surety Bonds 628

Summary 631 ■ Key Concepts and Terms 632 ■ Review Questions 632 ■ Application Questions 633 ■ Internet Resources 634 ■ Selected References 634 ■ Notes 634

### Case Application 631

INSIGHT 27.1: CRIME PREVENTION TIPS FOR SMALL BUSINESSES 623

INSIGHT 27.2: ISO'S CRIME CHANGES: KEEPING PACE WITH OUR DIGITAL WORLD 625

### Appendix A: Personal Auto Policy 636

### Appendix B: Homeowners 3 (Special Form) 651

### Glossary 676

### Index 695

# PREFACE

The first edition of this text appeared 37 years ago in 1982. The basic objective was to write an intellectually stimulating and visually attractive text from which students can learn and professors can teach. The fundamental objective for this edition remains the same. This edition provides students with an in-depth treatment of major risk management and insurance topics in a visually attractive and user-friendly product with no prerequisites. The 14<sup>th</sup> edition is unique in this respect. Students can immediately apply the basic principles in this text to their own personal risk management and insurance programs to deal with major risks that create great economic insecurity.

## CONTENT CHANGES IN THE 14<sup>TH</sup> EDITION

Thoroughly revised and updated, the 14<sup>th</sup> edition provides a comprehensive analysis of major life and health insurance contracts and property and liability insurance coverages, which readers have come to expect from *Principles of Risk Management and Insurance*. Key content changes in this edition include the following:

- *Enterprise risk management.* Chapter 4 provides a revised and expanded treatment of enterprise risk management.
- *Changes in marketing practices.* Chapter 5 covers significant changes in marketing practices. In particular, the fields of wholesale insurance and surplus lines insurance have been evolving rapidly, which has led to a new classification system for intermediaries in those areas. Wholesale insurance refers to property/casualty intermediaries who obtain business only from “retail” agents and brokers and do not deal with the public. The Wholesale and Specialty Insurance Association has been formed to provide a single

voice for intermediaries in the field. In addition, Chapter 5 deals with shifts in consumer preferences that have produced changes in life insurance marketing and financial planning.

- *Government regulation.* Chapter 8 adds new material to enhance the understanding of state insurance regulation. Additional insights have been added dealing with insurance regulation following the severe 2008 debacle and economic downswing.
- *Estate tax law.* Policyholders with large taxable estates often purchase life insurance for federal estate tax purposes. Chapter 13 deals with important considerations in purchasing life insurance for federal estate tax purposes. Updates have been added to reflect recent changes in the federal estate tax law.
- *Poor performance of health care delivery system.* When compared to advanced foreign nations, the United States scores last or low on most measurements of health care delivery systems and health insurance. Chapter 15 provides an updated analysis of the broken and flawed health care delivery system in the United States.
- *Evaluation of the Affordable Care Act.* Chapters 15 and 16 provide a current analysis of the Affordable Care Act (ACA) and an evaluation of its effectiveness in reducing the number of uninsured individuals and family members. The 14<sup>th</sup> edition analyzes the most egregious defects now found in the current ACA program.
- *Update on developments in employer-sponsored group health insurance plans.* Employers continue to struggle with the rapid increase in group health insurance premiums and continue to seek new solutions for holding down costs. Chapter 16 is an update on current trends in group health insurance and proposals to slow health care cost increases.
- *Changes in group life and health insurance.* Chapter 16 also deals with changes in group life

and health insurance and the market for group health insurance. For example, high-deductible health insurance plans combined with health savings accounts are making substantial gains in the preferred provider organization (PPO) market.

- *Obsolescence in certain retirement plans.* Chapter 16 recognizes that certain older retirement plans such as money purchase retirement plans and Keogh plans for the self-employed have become obsolete and are being replaced by other options.
- *Coverage of new Personal Auto Policy (PAP).* The Insurance Services Office (ISO) has released a new version of the Personal Auto Policy. The 2018 PAP is discussed in Chapter 20. The policy was revised to address car sharing and ride sharing (for example, Uber and Lyft) problems. Additional changes in the 2018 PAP are also discussed.
- *Cyber insurance.* Computer hackers have been successful in accessing the credit card records and other personal information of millions of individuals. Cyber security remains an important financial concern for business firms and public entities because of data breaches and malware. Chapter 25 provides an updated treatment of cyber property insurance. Chapter 26 provides an updated treatment of cyber liability insurance.

## IDENTIFICATION AND TREATMENT OF MAJOR RISKS

A primary objective of the text is to identify major risks in our economy and the various techniques for treating risk. Since the last edition of the text appeared, several tragedies have occurred that vividly show the deadly presence of risk in our society. In August 2017, Hurricane Harvey caused \$125 billion in damage, record rainfall and catastrophic flooding in Texas and Louisiana, and 107 confirmed deaths. Harvey was the second most-costly hurricane in the United States since 1900. Shortly thereafter, in October 2017, a deranged gunman rained gunfire on people attending an outdoor concert across the street from the Mandalay Bay Resort and Casino in Las Vegas, Nevada, killing 58 people (including the gunman) and wounding and injuring more than 800 people from gunfire and panic.

In addition to catastrophic tragedies at the national level, the media routinely report events that clearly show the destructive presence of risk at the local level. Examples abound. An employee in a liquor store is shot and killed by a customer seeking cash and alcohol; a house fire leaves a family homeless; a tornado destroys a large part of a small town; a drunk driver fails to stop at a red light and smashes into another motorist; a plant explosion kills two people and injures several employees; and a blinding snowstorm and ice-packed interstate highway cause a chain-like accident and collision damage to 10 cars. As a result, victims and families experience catastrophic financial losses, intense emotional pain and suffering, serious physical and mental injuries, and often death. To say that we live in a risky and very dangerous environment is an enormous understatement.

## OVERVIEW OF THE 14<sup>TH</sup> EDITION

The 14<sup>th</sup> edition of this text discusses the aforementioned risks and other insurance issues, as well. The text is designed for a beginning undergraduate course in risk management and insurance with no prerequisites. Topics discussed include basic principles in risk management and insurance, introductory and advanced topics in traditional risk management, newer enterprise risk management concepts, functional and financial operations of insurers, legal principles, life and health insurance, property and liability insurance, employee benefits, Social Security, and social insurance programs. In addition, the 14<sup>th</sup> edition is a user-friendly text for students who can apply basic concepts immediately to their own personal risk management and insurance programs.

## SOLVING TEACHING AND LEARNING CHALLENGES

By its very nature, the introductory course in risk management and insurance involves the teaching of highly complex technical concepts that can present certain teaching and learning challenges to both professors and students. To deal with technical problems and complexity, the authors have designed the text to reflect a basic principle in education—*repetition is the*



*mother of learning.* The 14<sup>th</sup> edition reflects this important principle in the following ways:

#### LEARNING OBJECTIVES

After studying this chapter, you should be able to

- 1.1 Explain the historical definition of risk.
- 1.2 Explain the meaning of loss exposure.
- 1.3 Understand the following types of risk:
  - Pure risk
  - Speculative risk
  - Diversifiable risk
  - Nondiversifiable risk
  - Enterprise risk
  - Systemic risk
- 1.4 Identify the major pure risks that are associated with great economic insecurity.
- 1.5 Show how risk is a burden to society.
- 1.6 Explain the major techniques for managing risk.

- **Learning objectives.** Each chapter has specific learning objectives, which give students an overview of the subject matter and list the important concepts students are expected to know.
- **Chapter discussion.** Each chapter presents text material designed to give students the knowledge needed to attain the learning objectives specified at the beginning of the chapter. Important material is often presented in italics for emphasis.

*Katerina, age 24, is a finance major at a large university. The placement director for the university has an annual job fair where recruiters from different business firms interview students for possible employment. Katerina signed up for an interview with a large multi-line insurance company to learn about job opportunities. The recruiter explained that job openings exist in several areas, and that the company hires new employees with a wide variety of educational backgrounds. Katerina is surprised to learn of the wide range of jobs in the insurance industry. The company has career openings in underwriting, sales, claims, actuarial, finance, information systems, accounting, legal, engineering, medicine, and in other areas as well.*

- **Chapter summary.** Each chapter ends with a summary of the major concepts students should know so that the learning objectives listed at the beginning of the chapter can be attained.

## SUMMARY

- There are several basic types of insurers:
  - Stock insurers
  - Mutual insurers
  - Lloyd's
  - Reciprocal exchange
  - Blue Cross and Blue Shield Plans
  - Health maintenance organizations (HMOs)
  - Captive insurers
  - Savings bank life insurance
- An *agent* is someone who legally represents the insurer and has the authority to act on the insurer's behalf. In contrast, a *broker* is someone who legally represents the insured.

- **Key concepts and terms.** Risk management and insurance has its own unique vocabulary and set of key concepts and terms. Instructors should inform students that these terms are clearly defined and easily accessible in the Glossary at the end of the text. If students do not understand the basic vocabulary, they will perform poorly.

## KEY CONCEPTS AND TERMS

Advance premium mutual (97)  
 Agent (102)  
 Assessment mutual (97)  
 Broker (102)  
 Captive agent (105)  
 Captive insurer (101)  
 Career agents (105)  
 Demutualization (98)  
 Direct response system (108)  
 Direct writer (107)  
 Exclusive agency system (107)  
 Fraternal insurers (97)  
 Holding company (99)  
 Independent agency system (107)  
 Interinsurance exchange (100)  
 Lloyd's (99)  
 Managed care plans (101)  
 Managing general agent (MGA) (104)  
 Mass merchandising (108)  
 Multiple distribution systems (108)

- **Review questions.** The answers to review questions at the end of each chapter enable students to answer the learning objectives listed at the beginning of each chapter.

## REVIEW QUESTIONS

1. Explain each of the following characteristics of a typical insurance plan.
  - a. Pooling of losses
  - b. Payment of fortuitous losses
  - c. Risk transfer
  - d. Indemnification
2. Explain the law of large numbers.
3. Pure risks ideally should have certain characteristics to be insurable by private insurers. List the six characteristics of an ideally insurable risk.
4. Identify the approaches that insurers can use to deal with the problem of catastrophic loss exposures.
5. Why are most market risks, financial risks, production risks, and political risks considered difficult to insure by private insurers?

- **Application questions.** These questions are a continuation of the review questions but at a higher level. The application questions enable students

to develop their analytical skills by having them apply the principles and concepts discussed in the chapter to specific risk management and insurance problems.

APPLICATION QUESTIONS

- 1. A group of investors are discussing the formation of a new property and liability insurer. The proposed company would market a new homeowners policy that combines traditional homeowner coverages with unemployment benefits if the policyholder becomes involuntarily unemployed. Each investor would contribute at least \$100,000 and would receive a proportionate interest in the company. In addition, the company would raise additional capital by selling ownership rights to other investors. Management wants to avoid the expense of hiring and training agents to sell the new policy and wants to sell the insurance directly to the public by selective advertising in personal finance magazines.
  - a. Identify the type of insurance company that best fits the preceding description.
- *Insights.* Each chapter has one or more Insights, which are short articles designed to give a practical application of the principle or concept discussed in the chapter.

**INSIGHT 6.1**

**Home Owner's Failure to Cooperate Yields Denied Claim**

A federal court in Ohio ruled that a home owner's claim stemming from a house fire could be denied after the insured failed to cooperate with his insurer's investigation. The court also ruled that misrepresentations on the home owner's insurance application voided the policy. The case is *Joseph v. State Farm Fire & Cas. Co.*, 2013 U.S. Dist. LEXIS 24511 (Feb. 22, 2013).

In March 2009, Nemon Joseph applied for and was issued a homeowners policy with State Farm covering a residence in Sunbury, Ohio. In August 2010, a fire destroyed the residence, after which Joseph submitted a claim. Suspecting arson based on evidence that an accelerant was used to start the fire, State Farm investigated. It began inquiring into Joseph's financial condition and requested him to provide a number of financial records including tax returns. Joseph failed to provide the requested financial documentation. State Farm eventually discovered that, at the time of the fire, Joseph owed the IRS \$391,000 in back taxes. The insurer ultimately concluded that the house fire was the result of arson and that Joseph had a financial motive to start the fire. State Farm denied the claim due to Joseph's lack of cooperation in the investigation.

State Farm also took a further look at Joseph's insurance policy application and discovered numerous misrepresentations including false statements that Joseph had no prior claim history and that Joseph failed to disclose that a previous insurer had cancelled his policy. Based on these and other misrepresentations, State Farm cancelled the policy.

Joseph sued State Farm, alleging breach of contract and bad faith. The court, however, ruled in favor of State Farm, explaining that State Farm was justified in denying the claim based on Joseph's lack of cooperation. An insured is required to cooperate with an insurer in its investigation of a loss as a condition precedent to coverage. Joseph's failure to cooperate was a breach of the policy on his part, thereby precluding coverage for the loss. Likewise, the court agreed that State Farm was justified in voiding the policy based on Joseph's material misrepresentations on his insurance application.

Sources: Case of the month, "Home Owner's Failure to Cooperate Yields Denied Claim," IRMI, Personal Lines Policy, Issue 116, March 15, 2013; International Risk Management Institute, Inc.

DEVELOPING EMPLOYABILITY SKILLS

A new objective for the 14<sup>th</sup> edition is to design a text that will increase the employability skills of students who are taking a course in risk management and insurance. Projections indicate that some 400,000 positions in the insurance industry will become available in the next four years. These positions include underwriting, claims, actuarial science, information

technology, enterprise risk management that treats both pure risk and speculative risk, loss prevention, investments, law and legal contracts, and numerous other functional areas. Most insurers today encourage or require new employees to participate in specialized education programs that increase their employability skills or take courses that lead to professional designations such as Chartered Life Underwriter (CLU), Chartered Property Casualty Underwriter (CPCU), or Certified Financial Planner (CFP). The 14<sup>th</sup> edition of the text provides the basic educational foundation for many of these professional designations.

In addition, the principles discussed in the 14<sup>th</sup> edition are essential for success and promotion in the insurance industry and provide tremendous advantages to employees who understand them. As such, students taking the introductory course in risk management and insurance will have a major advantage over others who are applying for similar jobs in the insurance industry. Likewise, if students need to take a state licensing exam to sell insurance and other financial products, information in the 14<sup>th</sup> edition will give them a major educational advantage over others who do not have a similar background.

INSTRUCTOR RESOURCES

Several supplements are available to help busy instructors with a limited amount of time to prepare for class more efficiently and to have access to high-quality multiple choice questions for examinations. The available supplements are listed in the following table.

<i>Supplements Available to Instructors at <a href="http://www.pearsonhighered.com/author">www.pearsonhighered.com/author</a></i>	<i>Features of the Supplement</i>
<b>Instructor's Manual</b>	<ul style="list-style-type: none"><li>■ Teaching tips</li><li>■ Lecture outlines</li><li>■ Answer to Case application</li><li>■ Solutions to all questions and problems in the book</li></ul>

<i>Supplements Available to Instructors at <a href="http://www.pearsonhighered.com/author">www.pearsonhighered.com/author</a></i>	<i>Features of the Supplement</i>
<b>Test Bank</b>	<p>1350 multiple choice questions with these annotations:</p> <ul style="list-style-type: none"> <li>■ Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis)</li> <li>■ Learning Objective</li> <li>■ AACSB learning standard (Written and Oral Communication; Ethical Understanding and Reasoning; Analytical Thinking; Information Technology; Interpersonal Relations and Teamwork; Diverse and Multicultural Work; Reflective Thinking; Application of Knowledge)</li> </ul>
<b>Computerized TestGen</b>	<p>TestGen allows instructors to:</p> <ul style="list-style-type: none"> <li>■ Customize, save, and generate classroom tests</li> <li>■ Edit, add, or delete questions from the Test Item Files</li> <li>■ Analyze test results</li> <li>■ Organize a database of tests and student results</li> </ul>
<b>PowerPoints</b>	<p>Slides include all the tables and equations in the textbook. PowerPoints meet accessibility standards for students with disabilities. Features include, but are not limited to:</p> <ul style="list-style-type: none"> <li>■ Keyboard and screen reader access</li> <li>■ Alternative text for images</li> <li>■ High color contrast between background and foreground colors</li> </ul>

## STUDENT SUPPLEMENTS AVAILABLE

To enhance student performance and higher class achievement levels, the text also makes available several supplements that can upgrade the overall learning experience of students. The following supplements enable students to understand more easily some difficult technical concepts in risk management and insurance.

<i>Supplements Available to Students at <a href="http://www.pearsonhighered.com/author">www.pearsonhighered.com/author</a></i>	<i>Features of the Supplement</i>
<b>Multiple-Choice Practice Quizzes</b>	XXX Questions for students to practice
<b>Internet Exercises</b>	Available for all chapters

## EMPLOYABILITY

### INSIGHT 1.2

#### Careers in Risk Management and Insurance

**Positions in Risk Management and Insurance.** Rarely has there been a time when it was so advantageous to consider a career in risk management and insurance. Projections indicate that some 400,000 positions will be open in the next four years.<sup>1</sup> The breadth of knowledge and skills required for these positions has never been greater or the opportunities more lucrative. Try to think of an industry with a wider range of employment opportunities. You are probably familiar with sales and claims. These areas interact with the public, such as sales to place the coverage with insurance purchasers, and payment of claims when a loss occurs. However, insurance offers many other careers as well. Underwriters review the applications solicited by agents to determine whether the insurer should accept the applicant. Actuaries price the coverages that agents are selling. Loss control specialists focus on reducing losses and potential claims. Lawyers review policy forms. Accountants prepare financial statements using one or more accounting systems. Financial specialists determine the appropriate mix of financial assets that back an insurance company's liabilities. Information technology

is also crucial for insurers, considering the large volume of data that insurers must manage. All of these functional areas must work together for an insurer to be successful. These areas are discussed in greater detail in Chapter 6.

**Importance of Risk Management and Insurance.** Whatever your specialty is and wherever you plan to work, experts agree that understanding the principles of risk management and insurance is important. Insurance is a challenging field, and considerable technical knowledge is required for employees who want to rise to top levels. To be effective in risk management and insurance means you must be able to think logically and apply important principles from law, finance, economics, mathematics, and decision making to problems you will encounter on a daily basis. As a result, insurance companies today require ongoing professional development for their employees as they enter the company and move up through the ranks. Most insurers today encourage their employees to participate in industry-specific education programs such as Chartered Life Underwriter (CLU), Chartered Property Casualty Underwriter (CPCU), Fellow, Life Management Institute (FLMI),

(Continued)

## ACKNOWLEDGMENTS

A market-leading text is never written alone. We owe an enormous intellectual debt to numerous risk management and insurance professors, risk management experts, insurance industry personnel, and other professionals for their kind and gracious assistance. These experts made valuable comments, provided supplementary materials, answered technical questions, or provided other assistance. As a result, the 14th edition is a substantially improved educational product. Experts include the following:

- Steve Avila, Ball State University
- W.H. “Skip” Cooper, Vice Chairman, Board of Directors, AmWINS
- Ann Costello, University of Hartford (retired)
- Brian J. Frey, Assistant Vice President, Protective Life
- James (Brad) Karl, East Carolina University
- George D. Krempley, University of South Carolina
- Yu-Luen Ma, University of North Texas
- Walter Malson, Department of Labor, State of Nebraska, Unemployment Insurance Tax Manager
- Andrew S. Martin, Owner & President, Providence Benefits
- Katherine C. Milligan, Senior Vice President, Education and Training, LOMA
- Meredith Hahn Moore, Senior Client Relationship Consultant, Arthur J. Gallagher & Co.
- Ralph W. “Reyn” Norman, III, General Counsel, Alabama Department of Insurance

- J. Holland Powell, Arthur J. Gallagher & Co.
- Yayuan Ren, Illinois State University
- Mike Rielmiller, Rielmiller Wealth Management
- Philip Stano, Partner, Eversheds-Sutherland
- Scott T. Steves, Regional Sr. Vice President, Houston, TX, Arthur J. Gallagher & Co.
- Don Svoboda, Woodbury Financial
- Eric Wienen, Insurance and Risk Management Author/Educator/Consultant
- Millicent W. Workman, Analyst, International Risk Management Institute, Inc. (IRMI), and editor, *Practical Risk Management*
- Finally, the authors are indebted to Jesu Christie for his tremendous help in resolving difficult technical and editorial problems that plagued the production of the 14th ed.

The views expressed in the text are those solely of the authors and do not necessarily reflect the viewpoints or positions of the reviewers whose assistance we gratefully acknowledge.

Finally, the fundamental objective underlying the 14<sup>th</sup> edition remains the same as in the first edition: We have attempted to write an intellectually stimulating and visually attractive textbook from which students can learn and professors can teach.

George E. Rejda, Ph.D., CLU  
Michael J. McNamara, Ph.D., CPCU, CLU, ARM  
William H. Rabel, Ph.D., FMLI, CLU

# ABOUT THE AUTHORS

**George E. Rejda, Ph.D., CLU**, is Emeritus Professor of Finance, University of Nebraska-Lincoln. He is a past president of the American Risk and Insurance Association. He was a founding member of the National Academy of Social Insurance and was the founding editor of *Benefits Quarterly* in employee benefits. While at the University of Nebraska-Lincoln, Dr. Rejda held a chaired position for 22 years as V.J. Skutt Distinguished Professor of Insurance. He is a member of Who's Who in Business Academia. Dr. Rejda received a Ph.D. degree in Applied Economics with a major in risk and insurance from the University of Pennsylvania, where he was a Huebner Foundation Fellow at the S.S. Huebner Foundation for Insurance Education, Wharton School, University of Pennsylvania. He has authored or co-authored 11 books and monographs and 34 refereed articles in professional journals. He has published dozens of additional articles and comments in non-refereed journals, parts of books, book reviews, published proceedings, and foreign translations. Dr. Rejda has also served on examination and grading committees of the American College, American Institute of Chartered Property and Casualty Underwriters, and Insurance Institute of America. His textbook, *Principles of Risk Management and Insurance* is widely used in colleges and universities in the United States and in foreign countries throughout the world. His major research and teaching areas are social insurance, risk management and insurance, retirement plans, and employee benefits.

**Michael J. McNamara, Ph.D., CPCU, CLU, ARM**, is Mutual of Enumclaw/Field Distinguished Professor of Insurance at Washington State University, Carson College of Business. He earned his undergraduate degree in finance with honors from Creighton University and his Ph.D. degree in finance from the University of Nebraska-Lincoln. He is a member of the American Risk and Insurance Association (ARIA), the

Southern Risk and Insurance Associations (SRIA), and the Western Risk and Insurance Association (WRIA). Dr. McNamara is past-president of the Western Risk and Insurance Association. His research has appeared in the *Journal of Risk and Insurance*, the *Journal of Insurance Issues*, *Benefits Quarterly*, the *CPCU Journal*, the *CLU Journal*, and other journals. In addition to his academic degrees, he has earned the Chartered Property and Casualty Underwriter (CPCU), Associate in Risk Management (ARM), and Chartered Life Underwriter (CLU) professional designations. He assisted the Institutes by serving on a CPCU exam preparation committee and by drafting examination questions for the ARM program. He is a member and past-president of the Spokane CPCU Chapter, and a member of the Washington RIMS Chapter where he serves on the Education and Community Service Committee. Since 2004, he has served on the Board of Directors of Oregon Mutual Insurance Company. He currently chairs the Investment Committee at Oregon Mutual, and he also serves on the Risk Management Committee and the Audit Committee. He has assisted the U.S. Department of Homeland Security by reviewing applications for liability limitations for anti-terrorism technologies under the SAFETY Act.

**William H. Rabel, Ph.D., FLMI, CLU**, is John & Mary Louise Loftis Bickley Endowed Teaching Chairholder in Insurance & Financial Services, University of Alabama, where he received awards for teaching and creativity. Previously, he was Senior Vice President, Education & Training at LOMA (Life Office Management Association). Other academic appointments have included dean, S.S. Huebner School of CLU Studies, The American College; assistant professor, Syracuse University; adjunct professor, Georgia State University; visiting professor, Kuwait University; fellow professor, Peking University (Beijing); fellow professor, Renmin (People's) University (Beijing);

Overseas Research Fellow, China Center for Insurance and Social Security Research. He also served as Economics Affairs Officer, United Nations Conference on Trade & Development, Geneva Switzerland, where his study, Insurance Education for Developing Countries, provided a blueprint for professional education institutes around the world. Dr. Rabel earned his BBA at Texas A&M and an MA and Ph.D. in Applied Economics, major in Risk and Insurance at

the University of Pennsylvania, where he was a Huebner Foundation Fellow at the S. S. Huebner Foundation for Insurance Education, Wharton School, University of Pennsylvania. Recognized by Who's Who in America, Dr. Rabel has extensive experience in business education and has provided technical assistance to many institutions, businesses, and regulatory bodies worldwide.