

Instructor's Resource Guide to Accompany

ELEVENTH EDITION

**Fundamentals of
Risk and
Insurance**

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INTRODUCTION

The purpose of this Instructor's Manual is to provide suggestions for teaching, answers to the end of chapter questions, examination questions, and other forms of assistance that may be of help to instructors using the tenth edition of *Fundamentals of Risk and Insurance*. It provides some general suggestions with respect to teaching approaches that have proven useful in the past, along with specific recommendations on the relative emphasis that should be placed on the material.

What the Manual Includes

Based on the experience and suggestions of many users of the first ten editions of the book, the same general features contained in the Instructor's Manual for the second through the tenth editions have been included in this manual.

1. **Purpose of the Course.** Immediately following this section, there is a brief discussion of the basic purpose of a first course in insurance, with our observations on what we feel we should attempt to accomplish in such a course.

2. **Structure of the Book.** Next, there follows a discussion of the basic structure of the book itself, with an explanation of the philosophy that we have attempted to incorporate into it. This discussion also summarizes some of the new features of the ninth edition.

3. **Course Outlines.** Five suggested course outlines are presented, for courses of differing lengths, including a personal lines consumer-oriented treatment and a commercial lines business-oriented course. This section also includes a priority ranking of the chapters, as we view their importance, which may be helpful in designing alternative course outlines.

4. **Chapter Notes.** A chapter-by-chapter discussion of the material in the text is also provided, with comments on each chapter. Answers to the end-of-chapter Questions for Review and Discussion are also given in this section. For each chapter, an introductory section briefly indicates the major points we had in mind when writing the chapter. These comments indicate those points that we consider to be the most important ones in the chapter. While different teachers will want to stress different parts of each chapter, it may be helpful to know where the emphasis was intended, and something about why the chapters are arranged the way they are. The chapter notes are contained in Section A, immediately following this introduction.

5. **Additional Questions for Discussion.** We have also included additional questions for discussion, a feature added in the third edition and continued in this one. These questions are similar to those at the end of each chapter, but which do not appear in the text. These questions can serve several purposes. Some are useful for classroom discussion, and permit the students to further explore the implications of some of the material in the text. Others can serve as essay examination questions that require the students to do more than simply recall facts from the text. Finally, some instructors may simply choose to include some of the answers to the questions as a part of their lectures, without referring to the questions themselves. Many of the questions involve controversial issues and value judgments, and while the answers suggest our opinion, many of the issues are debatable. These additional questions for discussion are included as a part of the chapter notes.

6. **Lecture Outlines.** The manual also includes lecture outlines for each chapter in the text. These outlines are not detailed, but generally follow the topical headings in the text, with key words and phrases inserted at appropriate points. The outlines mirror the Powerpoint slides provided with the instructor's manual.

7. **Sample Examination Questions.** The question bank includes two types of examination questions for each chapter. Objective multiple-choice questions, which provide easy to grade tests for those teachers with large classes or limited time for grading, vary in difficulty. Some are "check-up" type questions based directly on specific points in the chapter. Others are more analytically oriented, and require the student to think through to the answer. The true-false questions can be expanded by requiring the student to explain briefly why the particular statement is true or false. Like the multiple-choice questions, the true-false items include some "close ones." For this reason, the "explain why" technique may be desirable, since the "why" is really the most important part of the student's answer. The examination questions are contained in Sections C and D of the manual. The examination questions are also available on the companion instructor's website, formatted for use with Microsoft Word word processing software.

Purpose of the Course

The primary purpose of a first course in insurance is two-fold. It serves as an introduction to the subject for students who will major in insurance, and at the same time it should be a self-contained treatment of the subject for students who will take only a single course. Students who enroll in a Principles of Insurance course usually include not only business majors, but students from other disciplines as well. The diverse backgrounds and interests of these students require a treatment of the subject that will be meaningful not only in their lives as business persons, but as consumers as well. With this goal in mind, we have tried to emphasize insurance buying within a risk management framework. The concept of risk management is introduced early in the text, and consumer applications are stressed throughout the book.

Design of the Book

As noted in the introduction of the text itself, *Fundamentals of Risk and Insurance* is designed to serve as the basis for more advanced texts for those students who intend to specialize in the field of insurance, and at the same time constitutes a self-contained survey of the field for those who do not intend to do further work in the area. We have attempted to continue the consumer orientation of the first nine editions in this revision. The concept of risk management is introduced early in the text, and serves as a paradigm for the subsequent discussion of the various fields of insurance. In addition to a general discussion of the principles of insurance buying in Chapter 4, there are separate discussions elsewhere on buying life insurance, buying health insurance, buying insurance for the home, and buying automobile insurance.

Organization of the Book. The book is divided into three major parts. Section I provides a discussion of the concept of risk, an explanation of the insurance mechanism and the manner in which it operates, and the principles of risk management. In addition, it discusses the institutional aspects of insurance, describing the insurance industry and its

operations, insurance regulation, and the legal framework within which insurance operates. It is suggested that Section I be treated before turning to Sections II and III.

Sections II and III, which treat the areas of life and health insurance and property and liability insurance respectively, are self-contained and may therefore be presented in whatever sequence desired. We prefer to deal with the life and health insurance field first because we think that the contracts in this area are simpler and provide a more logical starting place. Perhaps equally important, many of our students are prospective life insurance buyers at this stage in their lives, and postponing the discussion of life insurance for months or even for a few weeks can result in costly mistakes on the part of our students.

While we believe that the introductory course should be consumer oriented, we recognize that some instructors may prefer a business orientation. The text is designed to permit emphasis of either personal line contracts or the commercial line policies. For example, in the area of property and liability coverages, those coverages designed for the individual and family are separated from those intended for the business firm. Instructors who prefer to emphasize personal line contracts may do so without a break in continuity. In the same way, those instructors who prefer to place greater emphasis on coverages for the business firm may also do so.

Important Concepts to Remember. New concepts are italicized when they are introduced, and the italicized terms are included in a list of Important Concepts to Remember at the end of each chapter. The students can use these end-of-chapter lists as a guide to study and review. These concepts are also useful for instructors in checking student comprehension of important topics. We have used this approach rather than a chapter summary because experience indicates that when a summary is available, many students simply read the summary rather than studying the chapter itself. Important concepts are italicized in the text and are defined in the appendix glossary.

Sample Policy Forms. As in previous editions, we have included sample policy forms. In this edition, the policy forms are provided in the student companion website and are available at www.wiley.com/college/vaughan. The contracts included are those appropriate for a consumer-oriented personal lines treatment of insurance.

Changes in This Edition

In general, the changes in this edition are designed to update the material and reflect the changes in insurance coverages and the laws that affect insurance. The principal changes from the tenth edition are the following:

- Chapter 6 includes an expanded discussion of international issues in insurance regulation, as well as an overview of the Dodd-Frank Act, which was enacted in response to the financial crisis. Instructors who are interested in delving into these issues in more detail will provide additional information in Chapter 34. The chapter also introduces a discussion of the NAIC's Solvency Modernization Initiative, particularly the elements related to group supervision and reinsurance regulation.

- Chapter 22 has been revised significantly to reflect developments in health insurance, most notable the Patient Protection and Affordable Care Act. At the time the text was written, the law had not yet been implemented. Several requirements of the law were delayed as implementation grew near, and it became clear that the health insurance exchanges were not fully functional. The market implications will become more clear in the next couple of years, and they could present an excellent case study on how insurance markets operate.
- Several of the chapters have been revised to reflect new editions of standard coverage forms. Specifically, the text uses the 2011 edition of the ISO Homeowners Forms in chapters 24-25 and chapter 28, ISO's 2012 Commercial Property Program in chapter 31, and ISO's 2012 Commercial Liability Program in chapter 32. A new section on insurance for cyber risk is included in chapter 32, and the ISO Information Security Protection Policy is presented as an example of a cyber risk insurance policy.
- The coverage of commercial automobile insurance has been reorganized to cover several developments since the last edition of the text. In addition to updating the material to reflect ISO's 2010 changes to the Business Auto Coverage, the discussion on trucking has been reorganized as a result of the increased importance of the Motor Carrier Coverage Form. ISO's new Auto Dealer's Coverage Form, which was introduced in 2013, and will eventually replace the Garage Coverage Form, is also covered.
- The discussion of financial guaranty in chapter 33 has been updated to reflect the events of the financial crisis, and a new section on mortgage insurance has been added.
- Other less significant changes include:
 - The discussion on insurance-linked securities in chapter 8 has been updated to reflect recent developments, and chapter 23 now includes a discussion of approaches employers are using to derisk their pension plans, including longevity risk transfer.
 - The section on flood insurance in Chapter 26 now includes a discussion of the financial difficulties of the NFIP and the National Flood Insurance Reform Act of 2012. As this was being written, the increase in premiums from the reforms was becoming recognized by homeowners, and coastal states were lobbying to have the increases delayed. The political process around NFIP reform provides an excellent case study of the public choice theory of regulation.
 - The Medicare supplement policies in Chapter 22 have been updated to recognize changes in the standard policy coverages.
 - The material on financial guaranty in chapter 33 has been updated to reflect the events of the financial crisis, and a new section on mortgage insurance has been added.
- As in the last editions, Chapter 34, Insurance in the Future, is now found on the companion website, at www.wiley.com/college/vaughan.
- Finally, the PowerPoint slides that were introduced with the Seventh edition have been updated to reflect the changes in the text.

Course Outlines

Although the book is designed to fit a one-semester or two quarter course, it may be adapted to longer and shorter sequences. We have tried to compose what we consider to be a logical sequence of subject matter, but the book can be used flexibly. Parts II and III in particular can be taken in different order.

A two-quarter course can cover the entire book. Although the text could conceivably be covered in a single semester, we believe that it will be necessary for most instructors to omit some chapters and at least a part of the detailed discussions. Outlines beginning on the next page are suggested for courses of differing lengths and emphasis.

Obviously, a given instructor may feel differently about the relative importance of the various chapters, and may choose to delete chapters other than those we have suggested in the course outlines. For this reason, we have prepared a classification of chapters, based on their relative importance as we perceive it.

Essential Chapters			Important Chapters	Optional Chapters
1	10	24	7	8
2	11	25	18	13
3	12	27	19	16
4	14	28	22	26
5	15	29	23	31
6	17	30		32
9	20	34		33
	21			

Thus, 22 of the 34 chapters in the text are considered essential; they constitute what we consider a minimum exposure to the field of study. Five more are considered "Important," and the remaining seven are "Optional." This priority ranking is based on a consumer-oriented treatment of the subject matter and teachers who prefer a commercial line or business orientation will consider some of the seven chapters we have classed as "Optional" to be of a higher ranking.

Alternate Course Plans

**COURSE OUTLINE
10 Week Quarter - Three Meetings Weekly
PERSONAL LINES ORIENTATION**

Chapters Assigned			
1st week	1	2	3
2nd week	4	5	6
3rd week	9	10	11
4th week	12	14	15
5th week	16	17	18
6th week	19	20	21
7th week	22	Exam	24
8th week	25	25	227
9th week	28	229	30
10th week	30	34	Exam or review

Chapters omitted: 7, 8, 13, 23, 26, 31, 32, 33. Two sessions on chapters 25, 30, and one session on each of the other chapters.

**COURSE OUTLINE
15 Week Semester - Three Meetings Weekly
PERSONAL LINES ORIENTATION**

Week	Chapters Assigned		
1st week	1	2	3
2nd week	3	4	5
3rd week	5	6	6
4th week	7	8	9
5th week	9	Exam	10
6th week	11	11	12
7th week	13	14	15
8th week	16	17	18
9th week	19	20	21
10th week	21	22	Exam
11th week	24	24	25
12th week	25	26	27
13th week	27	328	28
14th week	29	30	30
15th week	34	34	Exam or review

Chapters omitted: 23, 31, 32, 33
Two sessions on chapters 3, 5, 6, 9, 11, 21, 24, 25, 27, 28, 30, 34, and one session on each of the other chapters.

COURSE OUTLINE
15 Week Semester - Three meetings weekly
COMMERCIAL LINES ORIENTATION

Chapters Assigned			
1st week	1	2	3
2nd week	3	4	5
3rd week	6	7	8
4th week	9	Exam	10
5th week	11	12	13
6th week	14	15	16
7th week	17	18	19
8th week	20	21	22
9th week	23	23	23
10th week	Exam	24	25
11th week	26	27	28
12th week	29	30	30
13th week	31	31	31
14th week	32	32	32
15th week	33	34	Exam or review

Chapters omitted: none

Three sessions on chapters 23, 31 and 32, two sessions on chapters 3 and 30, and one session on each of the remaining chapters.

COURSE OUTLINE
10 Week Quarter - Five Meetings Weekly
ENTIRE BOOK

Chapters Assigned					
1st week	1	2	3	3	4
2nd week	5	5	6	6	7
3rd week	8	9	9	Exam	10
4th week	11	12	13	14	15
5th week	16	17	18	19	20
6th week	21	21	22	23	23
7th week	Exam	24	24	25	25
8th week	26	27	28	28	29
9th week	30	30	31	31	32
10th week	32	33	34	34	Exam

Chapters omitted: none

Two sessions on chapters 3, 5, 6, 9, 21, 23, 24, 25, 28, 30, 31, 32, 34.
 One session on each of the remaining chapters.

COURSE OUTLINE
Two 10-week Quarters – Three Meetings Weekly
BOTH QUARTERS REQUIRED

First Quarter	Chapters Assigned		
1st week	1	2	3
2nd week	3	4	5
3rd week	5	6	6
4th week	7	8	9
5th week	9	Exam	10
6th week	11	11	12
7th week	13	14	15
8th week	16	17	18
9th week	19	20	21
10th week	22	23	Exam
Second Quarter	Chapters Assigned		
1st week	24	24	25
2nd week	25	26	27
3rd week	28	27	29
4th week	30	30	Exam
5th week	31	31	31
6th week	31	32	32
7th week	32	32	33
8th week		Case studies	
9th week		Case studies	
10th week	34	34	Exam

Chapters omitted: none

Four sessions on chapters 31 and 32. Two class sessions on chapters 3, 5, 6, 9, 11, 24, 25, 28, 30, and 34, with one session for each of the remaining chapters. Case studies used to supplement the text material.