# **CONTENTS**

PART	BASIC CONCEPTS IN RISK AND INSURANCE I
1	Risk and Its Treatment 2
	WHAT IS RISK? 3 Objective Risk 3 / Subjective Risk 4
	CHANCE OF LOSS 4  Objective Probability 4 / Subjective Probability 4 / Chance of Loss  Distinguished from Risk 5
	PERIL AND HAZARD 5 Peril 5 / Hazard 5
	BASIC CATEGORIES OF RISK 6  Pure and Speculative Risk 6 / Static and Dynamic Risk 6 / Fundamental and Particular Risk 7
	TYPES OF PURE RISK 7 Personal Risks 7 / Property Risks 10 / Liability Risks 10
	SOCIETAL BURDEN OF RISK 11  Larger Emergency Fund 11 / Loss of Certain Goods and Services 11 / Mental Worry and Fear 12
	METHODS OF HANDLING RISK 12 Risk Avoidance 12 / Risk Retention 12 / Risk Transfer 13 / Loss Control 14 / Insurance 15
2	The Insurance Mechanism 20
	DEFINITION OF INSURANCE 21
	BASIC CHARACTERISTICS OF INSURANCE 21  Pooling of Losses 21 / Payment of Fortuitous Losses 22 / Risk  Transfer 22 / Indemnification 22
	REQUIREMENTS OF AN INSURABLE RISK 23  Large Number of Homogeneous Exposure Units 23 / Accidental and Unintentional Loss 23 / Determinable and Measurable Loss 23 / No Catastrophic Loss 24 / Calculable Chance of Loss 24 / Economically Feasible Premium 24
	TWO APPLICATIONS: THE RISKS OF FIRE AND UNEMPLOYMENT 25

	FIELDS OF INSURANCE 28
	Private Insurance 28 / Government Insurance 30
	BENEFITS OF INSURANCE TO SOCIETY 31 Indemnification for Loss 31 / Less Worry and Fear 31 / Source of Investment Funds 31 / Loss Prevention 32 / Enhancement of Credit 32
	COST OF INSURANCE TO SOCIETY 33  Cost of Doing Business 33 / Fraudulent Claims 35 / Inflated Claims 35
	APPENDIX: THE LAW OF LARGE NUMBERS 40
3 .	Risk Management 47
	MEANING OF RISK MANAGEMENT  Risk Management and Insurance Management  Society 48  48  Risk and Insurance Management  Society 48
	OBJECTIVES OF RISK MANAGEMENT 48 Objectives Prior to Loss 48 / Objectives After a Loss 49
	THE RISK MANAGEMENT PROCESS 49
	IDENTIFYING POTENTIAL LOSSES 50
	EVALUATING POTENTIAL LOSSES 50
	SELECTING THE APPROPRIATE TECHNIQUE FOR HANDLING LOSS 51  Avoidance 51 / Retention 51 / Noninsurance Transfers 54 / Loss Control 55 / Insurance 55 / Which Method Should Be Used? 58
	ADMINISTERING THE RISK MANAGEMENT PROGRAM 59  The Risk Manager's Position 59 / Policy Statement 59 / Cooperation with Other Departments 60 / Periodic Review 60
PART 2	LAW AND THE INSURANCE CONTRACT 67
4	Fundamental Legal Principles 68

69

70

Actual Cash Value Rule 69 / Exceptions to the Principle of Indemnity

PRINCIPLE OF INDEMNITY

25

26

27

INSURANCE AND GAMBLING COMPARED

INSURANCE AND SPECULATION COMPARED

**ADVERSE SELECTION** 

	PRINCIPLE OF UTMOST GOOD FAITH 75 Representations 76 / Concealment 76 / Warranty 77
	REQUIREMENTS OF AN INSURANCE CONTRACT 78  Offer and Acceptance 78 / Consideration 79 / Competent Parties 79 / Legal Purpose 79
	DISTINCT LEGAL CHARACTERISTICS OF INSURANCE CONTRACTS 79 Aleatory Contract 79 / Unilateral Contract 80 / Conditional Contract 80 / Personal Contract 80 / Contract of Adhesion 81
	LAW AND THE INSURANCE AGENT 81  General Rules of Agency 81 / Waiver and Estoppel 82
5	Analysis of Insurance Contracts 88
	BASIC PARTS OF AN INSURANCE CONTRACT 89  Declarations 89 / Insuring Agreement 89 / Exclusions 89 /  Conditions 92 / Miscellaneous Provisions 92
	DEFINITION OF THE INSURED 92
	ENDORSEMENTS AND RIDERS 93
	DEDUCTIBLES 93 Purposes of Deductibles 93 / Types of Deductibles 94
	COINSURANCE 95  Nature of Coinsurance 95 / Purpose of Coinsurance 96 / Coinsurance Problems 97 / Percentage Participation Clause 97
	OTHER INSURANCE PROVISIONS 97  Pro Rata Liability Clause 98 / Contribution by Equal Shares 98 / Primary and Excess Insurance 99
PART 3	PROPERTY AND LIABILITY INSURANCE 105
6	Fire Insurance 106
	HISTORICAL DEVELOPMENT OF THE STANDARD FIRE POLICY 107

107 / Incomplete Contract

107

PRINCIPLE OF INSURABLE INTEREST

72 / When Must an Insurable Interest Exist?

Purposes of an Insurable Interest

Purposes of Subrogation

Lack of Uniformity

PRINCIPLES OF SUBROGATION

NTEREST 71
72 / Examples of an Insurable

74

74

74 / Importance of Subrogation

BASIC PROVISIONS OF THE STANDARD FIRE POLICY 108 Insuring Agreement 108 / Conditions, Exclusions, and Other Provisions 110
Homeowners Insurance 121
1984 HOMEOWNERS PROGRAM 122 Eligible Dwellings 122 / Types of Homeowners Policies 122
ANALYSIS OF HOMEOWNERS 3 POLICY (SPECIAL FORM) 124  Coverage A—Dwelling 124 / Coverage B—Other Structures 124 / Coverage  C—Personal Property 125 / Coverage D—Loss of Use 129 / Additional  Coverages 130
SECTION I—PERILS INSURED AGAINST 132  Dwelling and Other Structures 132 / Personal Property 133
SECTION I—EXCLUSIONS 136  Ordinance or Law 136 / Earth Movement 136 / Water  Damage 136 / Power Failure 136 / Neglect 136 / War 136 / Nuclear  Hazard 136 / Intentional Loss 136 / Additional General Exclusions 136
SECTION I—CONDITIONS 137 Duties After a Loss 137 / Loss Settlement 138
SECTION II—LIABILITY COVERAGES 138
SHOPPING FOR HOMEOWNERS INSURANCE Have Adequate Insurance 139 / Don't Ignore Inflation Endorsements 139 / Consider Cost 140  139 / Add Necessary
Other Property Insurance Coverages 148
DWELLING 77 POLICY PROGRAM 149 Eligible Dwellings 149 / Types of Dwelling Forms 149
MOBILE HOME INSURANCE 151 Eligibility 151 / Coverages 151
INSURANCE ON PLEASURE BOATS 152 Personal Yacht Insurance 152 / Boat Owners Package Policy 152
PERSONAL ARTICLES FLOATER 153

153 / Types of Covered Property

155 / FAIR Plans

153

157 / Federal Crime

164 / Negligence

164

Insurance

All-risk Coverage

Federal Flood Insurance 158

8

FEDERAL PROPERTY INSURANCE PROGRAMS

LAW OF	' NEC	LIGENCE	164
--------	-------	---------	-----

Elements of a Negligent Act 165 / Defenses Against Negligence

**IMPUTED NEGLIGENCE** 169

RES IPSA LOQUITUR 169

# SPECIFIC APPLICATIONS OF THE LAW OF NEGLIGENCE 170

167

Property Owners 170 / Attractive Nuisance Doctrine 171 / Owners and Operators of Automobiles 171 / Governmental Liability 171 / Charitable Institutions 172 / Employer and Employee Relationships 172 / Parents and Children 172 / Animals 172

# SPECIAL NEGLIGENCE PROBLEMS 173

Products Liability 173 / Professional Liability 175

ELECTIVE NO-FAULT INSURANCE 177

# Personal Liability Insurance 183

# COMPREHENSIVE PERSONAL LIABILITY INSURANCE 184

Persons Insured 184 / Insured Locations 185 / Insuring Agreements 185

# SECTION II EXCLUSIONS 187

Personal Liability and Medical Payments Exclusions 187 / Personal Liability Exclusions 190 / Medical Payments Exclusions 192 / Additional Coverages 192

# ENDORSEMENTS TO SECTION II COVERAGES 194

Business Pursuits 194 / Personal Injury 194 / Watercraft and Recreational Vehicles 195

# PERSONAL UMBRELLA POLICY 195

Major Features 195 / Umbrella Liability Exclusions 196

# Automobile Insurance 202

11

# PART A—LIABILITY COVERAGE 203

Insuring Agreement 203 / Covered Auto 204 / Covered
Persons 204 / Supplementary Payments 205 / Exclusions 206 / Out-of-State
Coverage 207 / Other Insurance 207

# PART B-MEDICAL PAYMENTS COVERAGE 207

Insuring Agreement 207 / Covered Persons 208 / Exclusions 208 / Other Insurance 209

# PART C—UNINSURED MOTORISTS COVERAGE 209

Insuring Agreement 209 / Covered Persons 210 / Uninsured Vehicles 210 / Exclusions 210 / Other Insurance 211 / Underinsured Motorists Coverage 212

# PART D—COVERAGE FOR DAMAGE TO YOUR AUTO 212

Insuring Agreement 212 / Covered Vehicles 213 / Transportation Expenses 213 / Exclusions 214 / Payment of Loss and Limit of Liability 214 / Other Insurance 215 / Trailers 215

PART E—DUTIES AFTER AN ACCIDENT O	R LOSS 216
PART F—GENERAL PROVISIONS 217 Policy Period and Territory 217 / Termination	217
INSURING MOTORCYCLES AND MOPEDS	218
Additional Topics in Automobile Insurance	223
PROTECTION AGAINST IRRESPONSIBLE M Financial Responsibility Laws 224 / Compulsory I	

#### 225 / Unsatisfied Judgment Funds 226 / Uninsured Motorist's 228 / No-fault Automobile Insurance Coverage

12

**AUTOMOBILE INSURANCE FOR HIGH-RISK DRIVERS** 233 Automobile Insurance Plan 234 / Ioint Underwriting Associations 234 / Reinsurance Facility 235 / High-risk Automobile Insurers

#### COST OF AUTOMOBILE INSURANCE 235

236 / Age, Sex, and Marital Status 236 / Use of the 236 / Driver Education Automobile 236 / Good Student Discount 237 / Number and Type of Automobiles 237 / Individual Driving Record

224

228

#### SHOPPING FOR AUTOMOBILE INSURANCE 237

Have Adequate Liability Insurance 237 / Purchase Higher 238 / Take Advantage of Discounts Deductibles 238 / Shop Around for 238 / Improve Your Driving Record Automobile Insurance

### APPENDIX: COMPARISON OF AUTOMOBILE INSURANCE RATES IN PENNSYLVANIA 245

#### 13 Commercial Property Insurance 250

#### FIRE INSURANCE AND FIRE INSURANCE FORMS 251

Standard Fire Policy 251 / Fire Insurance Forms 251 / General Property 252 / Builders' Risk Forms 253 / Replacement Cost Insurance

# **ALLIED LINES**

Sprinkler Leakage Insurance 253 / Earthquake Insurance 253 / Crop 254 / Difference in Conditions Insurance (DIC) Insurance 254

#### BUSINESS INTERRUPTION INSURANCE 256

256 / Earnings Form Gross Earnings Form 257 / Extra Expense 257 / Contingent Business Interruption Insurance 257 / Rent and Rental Value Insurance 258 / Leasehold Interest Insurance

#### MISCELLANEOUS COVERAGES 258

258 / Boiler and Machinery Insurance Plate Glass Insurance 259 / Credit 260 / Accounts Receivable Insurance 260 / Valuable Papers Insurance Insurance 260 / Title Insurance

Ocean Marine Insurance 262 / Basic Concepts in Ocean Marine Insurance 263 / Inland Marine Insurance 264 / Nationwide Marine Definition 265 / Major Classes of Inland Marine Insurance 265
MULTIPLE-LINE INSURANCE COVERAGES FOR BUSINESS  FIRMS 267  Special Multi-Peril Policy (SMP) 267 / Businessowners Policy (BOP) 268
Commercial Liability Insurance 274
GENERAL LIABILITY LOSS EXPOSURES 275  Premises and Operations 275 / Elevators and Escalators 275 / Products
Premises and Operations 275 / Elevators and Escatators 275 / Francisco 275 / Completed Operations 276 / Contractual
Liability 276 / Completed Operations 276 / Contractual Liability 276 / Contingent Liability 276 / Other General Liability Loss
Exposures 276
COMPREHENSIVE GENERAL LIABILITY INSURANCE 278
Coverages 278 / Insuring Agreements 278 / Defense
Costs 278 / Exclusions 278 / Broad Form CGL Endorsement 280
WORKERS' COMPENSATION AND EMPLOYER LIABILITY
INSURANCE 280
Insuring Agreements 281 / Workers' Compensation Insurance 281 / Employers'
Liability Insurance 281 / Other States Insurance 282 / Voluntary Compensation
Coverage 282 / Exclusions 282
BUSINESS AUTOMOBILE INSURANCE 283
Business Auto Policy (BAP) 283 / Nonownership Liability
Coverage 284 / Garage Policy 284
AVIATION INSURANCE 286
Use Classification 286 / Aircraft Liability Insurance 286 / Admitted Liability
Coperage 287 / Medical Payments 287 / Aircraft Hull
Insurance 287 / Other Aviation Liability Insurance Coverages 288
BAILEES' LIABILITY INSURANCE 288
COMMERCIAL UMBRELLA LIABILITY POLICY 288
Basic Features 289 / Exclusions 289
LIABILITY INSURANCE—BUSINESSOWNERS POLICY 290
Basic Coverages 290 / Legal Defense 290 / Definition of Insured 290 /
Medical Payments 290 / Exclusions 290
PROFESSIONAL LIABILITY INSURANCE 291
Medical Malpractice Insurance 291 / Errors and Omissions Insurance 292
•
Crime Insurance and Fidelity and Surety Bonds 299
Chima Incurance and Fidelity and Sufery Dulius 4//

Crime Insurance and Fidelity and Surety Bonds

300

300 / Mercantile Open Stock Burglary Policy 301 / Mercantile Robbery Policy 302 /

300 / Mercantile

302 /

CRIME INSURANCE

Basic Definitions Safe Burglary Policy

Money and Securities Broad Form Policy 302 / Storekeepers I and Robbery Policy 303 / Comprehensive Dishonesty, Disappe	Burglary earance,
and Destruction (3D) Policy 303 / Federal Crime Insurance	304
FIDELITY AND SURETY BONDS 304	

Parties To a Surety Bond 305 / Comparison of Surety Bonds and
Insurance 305 / Types of Fidelity Bonds 306 / Common Features of Fidelity
Bonds 307 / Types of Surety Bonds 308

PART	
4	LIFE AND HEALTH INSURANCE 314
16	Fundamentals of Life Insurance 314
	AMOUNT OF LIFE INSURANCE TO OWN 315  Human Life Value Approach 315 / Income Replacement Approach 316 / Needs Approach 316
	METHODS FOR PROVIDING LIFE INSURANCE PROTECTION 321 Yearly Renewable Term Method 321 / Level-premium Method 321
17	Types of Life Insurance and Annuities 327
	TYPES OF LIFE INSURANCE 328  Term Insurance 328 / Whole Life Insurance 331 / Endowment Insurance 338
	SPECIAL LIFE INSURANCE POLICIES 339  Family Income Policy 339 / Family Maintenance Policy 340 / Family  Policy 341 / Specials 342 / Modified Life Insurance 342 / Multiple  Protection Policy 343 / Juvenile Insurance 343 / Variable Life  Insurance 344 / Cost-of-living Rider 345 / Adjustable Life  Insurance 345 / Economatic Policy 346 / Deposit Term 347 / Indeterminate  Premium Policies 347 / Vanishing Premium Policy 347
	OTHER TYPES OF LIFE INSURANCE 347 Savings Bank Life Insurance 348 / Industrial Life Insurance 348 / Group Life Insurance 348
	ANNUITIES 348 Annuity Concept 348 / Types of Annuities 349
18	Life Insurance Contractual Provisions 360

LIFE INSURANCE CONTRACTUAL PROVISIONS

361 / Suicide Clause

362 / Misstatement of Age

361 / Entire Contract Clause

362 / Grace Period

Ownership Clause

Clause

Clause

361

361 / Incontestable

363 / Beneficiary Designation

362 / Reinstatement

363 /

367 **DIVIDEND OPTIONS** 368 / 368 / Accumulate at Interest Cash 367 / Reduction of Premium 368 / Term Insurance (Fifth Dividend Option) 368 / Other Paid-up Additions Uses of Dividends 369 NONFORFEITURE OPTIONS 369 369 / Reduced Paid-up Insurance 370 / Extended Term Cash Value Insurance 370 SETTLEMENT OPTIONS 370 371 / Fixed Period Option Interest Option 372 / Fixed Amount 373 / Life Income Options 373 / Advantages of Settlement Option 375 / Disadvantage of Settlement Options 375 / Use of a Trust **Options** OTHER LIFE INSURANCE BENEFITS 376 376 / Life Insurance Disability Income Rider 377 / Waiver-of-Premium Guaranteed Purchase Option 378 / Double Indemnity Rider

365 / Exclusions and Restrictions

365 / Assignment Clause

366 / Automatic Premium Loan

365 / Payment of

376

365 / Policy Loan

367

# 385 **Buying Life Insurance**

Change of Plan

**Premiums** Provision

19

#### 386 COST OF LIFE INSURANCE

387 / Substantial 386 / Interest-Adjusted Method Traditional Net Cost Method 389 Cost Variation Among Insurers 389 / Obtaining Cost Information

#### RATES OF RETURN ON CASH-VALUE POLICIES 392

393 / Federal Trade Commission Report 394 / Consumers Union Linton Yield Report on Life Insurance

#### SHOPPING FOR LIFE INSURANCE 395

Decide on the Best Type of Insurance for You 396 / Estimate the Amount of 396 / Decide Whether You Want a Life Insurance Policy That Insurance Needed 396 / Shop Around for the Lowest-Cost Policy 396 / Pay Pays Dividends 396 / Don't Sign a Promissory Note 397 / Consider Other Annual Premiums Factors in Addition to Cost

#### APPENDIX: IS YOUR LIFE INSURANCE REASONABLY PRICED? 401

#### 20 Life Insurance Programming and Estate Planning 407

# FUNDAMENTALS OF LIFE INSURANCE PROGRAMMING

408 / Comparison of Present Life Insurance and **Determination of Financial Goals** 409 / Determining the Amount of New Life Assets with the Amount Needed 411 / Periodic Review of the Program 413 Insurance

#### PRINCIPLES OF ESTATE PLANNING 415

415 / Federal Estate Tax 415 / Steps in Estate Estate Shrinkage 416 / Taxation of Life 416 / Estate Planning Instruments Planning Insurance 418

# TYPES OF HEALTH INSURANCE 427

Hospital Expense Insurance 427 / Surgical Expense Insurance 428 / Physicians' Expense Insurance 428 / Major Medical Insurance 428

# DISABILITY INCOME INSURANCE 430

Periodic Income Payments 431 / Waiting Period 431 / Waiver of
Premium 433 / Rehabilitation Benefit 433 / Accidental Death, Dismemberment,
and Loss of Sight Benefits 434 / Meaning of Total Disability 434 / Meaning of
Partial Disability 435 / Meaning of Accident 435

# COMMON HEALTH INSURANCE POLICY PROVISIONS 435

Continuance Provisions 435 / Preexisting Conditions Clause 437 / Probationary Period 437 / Recurrent Disability 437 / Time Limit on Certain Defenses 438 / Relation of Earnings to Insurance 438 / Change of Occupation 438 / Grace Period 439 / Reinstatement 439

# BLUE CROSS AND BLUE SHIELD PLANS 439

Blue Cross 439 / Blue Shield 440 / Comparison of Blue Cross and Blue Shield with Commercial Health Insurers 440

# SHOPPING FOR HEALTH INSURANCE 441

Insure for the Large Loss 441 / Avoid Limited Policies 441 / Consider Service Benefits 442 / Watch Out for Restrictive Policy Provisions 442 / Use Deductibles and Elimination Periods to Reduce Premiums 442 / Beware of Mail-order Health Insurers 442 / Deal with a Reputable Insurer 443 / Shop Around for Health Insurance 443

# 22 Employee Benefit Plans 449

# NATURE OF GROUP INSURANCE 450

### BASIC PRINCIPLES OF GROUP INSURANCE 450

Insurance Incidental to the Group 450 / Flow of Persons Through the Group 451 / Automatic Determination of Benefits 451 / Minimum Participation Requirements 451 / Third-party Sharing of Cost 451 / Simple Administration 451

### ELIGIBILITY REQUIREMENTS IN GROUP INSURANCE 452

Eligible Groups 452 / Eligibility Requirements 452

# GROUP LIFE INSURANCE 452

Group Term Life Insurance 453 / Group Creditor Life Insurance 453 / Group Paid-up Insurance 454 / Group Ordinary 455 / Group Survivor Income Benefit Insurance 456

### GROUP HEALTH INSURANCE 456

Group Basic Medical-expense Insurance 456 / Group Major Medical Insurance 457 / Group Disability Income Insurance 458 / Group Dental Insurance 460

# HEALTH MAINTENANCE ORGANIZATIONS (HMOs) 461

Basic Characteristics 461 / Advantages of HMOs 462 / Disadvantages of HMOs 463

23	Additional Topics in Employee Benefit Plans 470
	FUNDAMENTALS OF PRIVATE PENSION PLANS 471  Basic Features of Private Pension Plans 471 / Types of Pension Plans 475
	RETIREMENT PLANS FOR THE SELF-EMPLOYED 477  Limits on Maximum Contributions and Benefits 477 / Other Recent Changes 478
	INDIVIDUAL RETIREMENT ACCOUNT (IRA) 479  Eligibility Requirements 479 / Limitation on Contributions 479 / Withdrawal of Funds 479 / Types of IRA Plans 480
	OTHER RETIREMENT PLANS 480 Simplified Employee Pension Plan 481
- 4	
24	Social Insurance 486
	NATURE OF SOCIAL INSURANCE 487 Reasons for Social Insurance 487 / Basic Characteristics of Social Insurance 487
	OLD-AGE, SURVIVORS, DISABILITY AND HEALTH INSURANCE (OASDHI) 489  Covered Occupations 489 / Determination of Insured Status 490 / Types of Benefits 491 / Financing 498 / Problems and Issues 499
	UNEMPLOYMENT INSURANCE 501  Objectives of Unemployment Insurance 501 / Coverage 501 / Eligibility  Requirements 501 / Benefits 503 / Financing 504 / Problems and  Issues 504
	WORKERS' COMPENSATION 505  Development of Workers' Compensation 505 / Objectives of Workers' Compensation 506 / Types of Law 507 / Complying with the Law 507 / Covered Occupations 507 / Eligibility Requirements 507 / Types of Benefits 508 / Second-injury Funds 508 / Problems and Issues 509
PART	
<u>5</u>	THE INSURANCE INDUSTRY 515
25	Types of Insurers and Marketing Systems 516
	TYPES OF PRIVATE INSURERS 517  Stock Companies 517 / Mutual Companies 517 / Reciprocal Exchange 519 / Lloyd's Association 520 / New York Insurance Exchange 521

	AGENTS AND BROKERS 525 Agents 525 / Brokers 525
	TYPES OF MARKETING SYSTEMS 525 Life Insurance Marketing Systems 526 / Property and Liability Insurance Marketing Systems 526
	MASS MERCHANDISING 530  Basic Characteristics 530 / Advantages and Disadvantages of Mass  Merchandising 530
26	Insurance Company Operations 535
	INSURANCE COMPANY OPERATIONS 536
	RATEMAKING 536
	UNDERWRITING 537  Statement of Underwriting Policy 537 / Basic Underwriting Principles 537 / Steps in Underwriting 538 / Other Underwriting Considerations 540
	PRODUCTION 540 Agency Department 540 / Professionalism in Selling 541
	CLAIM SETTLEMENT 541  Basic Objectives in Claim Settlement 542 / Types of Claim Adjustors 542 /  Steps in Settlement of a Claim 543
	REINSURANCE 546  Definitions 546 / Reasons for Reinsurance 546 / Types of Reinsurance 547
	ELECTRONIC DATA PROCESSING 550
	INVESTMENTS 550 Life Insurance Investments 550 / Property and Liability Insurance Investments 551
	OTHER INSURANCE COMPANY FUNCTIONS 551 Accounting Department 551 / Legal Department 554 / Loss Control Department 554
27	Insurance Pricing 559
	OBJECTIVES OF RATEMAKING 560 Regulatory Objectives 560 / Business Objectives 560
	BASIC DEFINITIONS 561
	RATEMAKING IN PROPERTY AND LIABILITY INSURANCE 561  Judgment Rating 562 / Class Rating 562 / Merit Rating 563

RATEMAKING IN LIFE INSURANCE

565 / Net Level Premium

Net Single Premium

565

569 / Gross Premium

RESERVES IN PROPERTY AND LIABILITY INSURANCE 571 Unearned Premium Reserve 571 / Loss Reserves 573
LIFE INSURANCE POLICY RESERVES 575  Nature of the Reserve 575 / Purposes of the Reserve 575 / Definition of the Reserve 575 / Types of Reserves 576
Government Regulation of Insurance 581
REASONS FOR INSURANCE REGULATION 582  Maintain Insurer Solvency 582 / Inadequate Consumer Knowledge 582 / Ensure Reasonable Rates 582 / Make Insurance Available 582
HISTORICAL DEVELOPMENT OF INSURANCE REGULATION  Early Regulatory Efforts 583 / Paul v. Virginia 583 / South-Eastern  Underwriters Association Case 583 / McCarran-Ferguson Act 583
METHODS FOR REGULATING INSURERS 584  Legislation 584 / Courts 584 / State Insurance Departments 584
WHAT AREAS ARE REGULATED? 584  Formation and Licensing of Insurers 585 / Financial Regulation 585 / Rate Regulation 587 / Policy Forms 588 / Sales Practices and Consumer Protection 588
TAXATION OF INSURERS 590 Premium Tax 590
STATE VERSUS FEDERAL REGULATION 590  Advantages of Federal Regulation 590 / Advantages of State Regulation 590 / Shortcomings of State Regulations 590 / Repeal of the McCarran Act 592
CURRENT ISSUES IN INSURANCE REGULATION 592  Life Insurance Cost Disclosure 592 / Automobile Insurance Rate Classification  Systems 594 / Banks Entering Insurance Industry 595
Glossary 603 Appendix A: Standard Fire Policy 621 Appendix B: Homeowners 3 Special Form 623 Appendix C: Personal Auto Policy 638 Appendix D: Whole Life Policy 648 Appendix E: Disability Income Policy 660 Appendix F: Universal Life Insurance Policy 673

Index