

<b>Course Title</b>	:	Property and Liability Insurance
<b>Course Code</b>	:	RIM3351
<b>Recommended Study Year</b>	:	3
<b>No. of Credits/Term</b>	:	3
<b>Mode of Tuition</b>	:	Sectional Approach
<b>Class Contact Hours</b>	:	42 hours (3 hours per week)
<b>Category in Major Programme</b>	:	Required course – BBA (Hons) Risk and Insurance Management Programme
<b>Prerequisites</b>	:	RIM2200 Principles of Risk Management RIM2201 Principles of Insurance

### **Brief Course Description**

This course is intended to help individuals learn basic information concerning Property and Liability Insurance. The first segment of the course covers the fundamentals of risk management and insurance. The second segment focus on personal property and liability insurance issues, such as automobile insurance, homeowners insurance and workers' compensation and employee injuries. The final segment covers business property and liability risk management.

### **Aims**

To provide basic and intermediate knowledge about various property and liability products, the property and liability industry, and property liability insurance company operation.

### **Learning Outcomes**

On completion of this course, students are expected to:

1. understand the tort responsibilities of businesses and individuals at common law and under existing regulations,
2. understand the nature and scope of the property and liability risks faced by businesses and individuals and how the multitude of property and liability insurance products can be employed to handle these risks,
3. understand the limitations of property and liability insurance products as risk transfer devices due to the existence of general and specific exclusions, excesses, policy limits, and cancellation clauses,

4. be able to apply their insurance knowledge acquired in the course to simple local and international cases, be able to discuss and comment critically on the current property and liability insurance-related issues using the knowledge.

### **Indicative Contents**

#### **Risk Aversion and Risk Management by Individuals and Corporations**

The Effects of Insurance on Wealth. Risk Aversion. Other Factors Affecting an Individual's Demand for Insurance. Shareholder Diversification. Closely-Held Businesses.

#### **Insurability of Risk, Contractual Provisions, and Legal Doctrines**

Premium Loadings. Moral Hazard. Adverse Selection. Deductibles. Coinsurance. Policy Limits. Coordination of Benefits. Exclusions. Indemnity versus Valued Contracts. Reducing Contracting Costs through Fundamental Legal Doctrines. Resolving Coverage Disputes

#### **Loss Control**

Loss Prevention. Loss Reduction. Diversification and Expected Indirect Losses. Effects of Insurance on Loss Control.

#### **Legal Liability for Injuries**

Basic Tort Liability Rules. Damages. Joint and Several Liability. Elements of Negligence. Defenses to Negligence. Optimal Safety. Optimal Compensation to Victims. Situations in Which Injurers Can Escape Liability. Compulsory Liability Insurance and the Judgment Proof Problem

#### **Automobile Insurance**

Liability Coverage. Medical Payments Coverage. Uninsured and Underinsured Motorists Coverage. Damage and Other Losses to Autos. Rating Factors. Underwriting. Residual Markets. Economic Rationale. Criticisms and Limitations of Compulsory Insurance. Alternatives to Compulsory Insurance. No-fault Compared to Tort Liability. PIP Benefits and Limitations on Tort Liability with Compulsory No-fault. The Rationale For and Against No-fault. How Does No-fault Affect Premiums? Choice No-fault. Other Proposals to Limit Tort Liability.

#### **Homeowners' Insurance**

Types of Policies. Description of Major Coverages. Property Loss Settlement. Pricing homeowners' Policies. Earthquake Coverage. National Flood Insurance. Residual Market Plans Florida and Hurricane Andrew. California and the Northridge Earthquake. Rationale for Government-sponsored Reinsurance Arrangements. New Capital Market Instruments for Financing Catastrophe Losses.

#### **Workers' Compensation and Employee Injuries**

Medical Benefits. Disability Benefits. Survivor Benefits. Benefits and Costs of Different Arrangements. Description of Insurance Coverage. Insurance Pricing, Residual Markets, and State Funds. Self-insurance and Large Deductible Policies. Second Injury Funds

#### **Risk Management and Shareholder Wealth**

Valuation Formula. Components of the Opportunity Cost of Capital. Compensation for Risk. Insurance Premium Loadings. Services Provided by Insurers. Insurance and the Likelihood of Having to Raise Costly External Funds. Insurance and Financial Distress.

Tax, Regulatory, and Accounting Factors Affecting Corporate Risk Management

Progressivity of US Corporate Income Tax Rates. Tax Benefit with Overstated Loss Reserves. Compulsory Insurance. Restriction on the Choice of Insurance. Financial Accounting for Insurance Premiums and Uninsured Losses. Impact of Financial Accounting Numbers on Cash Flow.

Risk Retention/Reduction Decisions

Benefits of Increased Retention. Costs of Increased Retention. A Basic Guideline for Optimal Retention. Advantages and Disadvantages of Disaggregation.

Commercial Insurance Contracts

Major Types of Commercial Property-Casualty Insurance. Designing and Negotiating Commercial Insurance Programs. Covered Losses. Covered Causes of Losses. CGL Covered Losses. CGL Exclusions. Occurrence Coverage. Claims-Made Coverage.

Corporate Liability to Customers, Third Parties, and Shareholders

Legal Background. Insurance Coverage. Indemnification and Insurance Coverage.

Issues in Liability Risk and Its Management

Limited Liability as Insurance against Loss. The Moral Hazard Problem. Exceptions to Limited Liability. Vicarious Liability Doctrine. Liability of Businesses for Actions of Independent Contractors. Effect on the Cost of Risk. The Role of Insurance. General Claims Strategy. Monitoring Performance of Insurers and Outside Contractors. Claim Cost Allocation

**Teaching Method/Class Activities**

1. In-class quizzes and/or mid-term examination will be used to constantly test whether the materials taught in lectures are fully understood by students. Answers to the quizzes and mid-term examination will be delivered to students in a timely fashion to make sure that they learn from their mistakes. The final examination is cumulative and covers all the materials taught during the entire term. It may include multiple choice questions that allow a broad coverage of the materials taught in class and comprehensive questions, possibly conceptual or in case format, that test how much of the materials taught are learned and appreciated by students.
2. Group presentations are made by students. Student presentations on the current development and new issues in the reinsurance market and its relation with the development of property and liability insurance markets are used to stimulate students to learn from their peers. Students are encouraged to ask questions to the presenting groups who are responsible for clarifying any unclear issues related to their presentations. The lecturer's comments will be made to students in case any ambiguity remains.

### **Group Presentation**

1. Students are required to form teams (each with three students). The presentation should be conducted using Powerpoint or similar programs.
2. Two possible types of presentation topics:
  - (a) A Hong Kong court case with judgment (downloadable from [www.hklii.org.hk](http://www.hklii.org.hk)) may be selected by each group. The presentation should be divided into three parts, namely, description of the background of the case, interrogation and evidence presented, and the reasons for the judgment.
  - (b) One to three articles from local and international insurance trade magazine(s) (e.g., from American Underwriter, [www.oci.gov.hk](http://www.oci.gov.hk), [news.yahoo.com](http://news.yahoo.com), etc) on a particular insurance issue happened in Hong Kong or around the world may be selected by each group. A presentation should last for approximately 20 minutes.
3. Assessment is based on the clarity of presentation, the significance of the issue, the ability to relate the issue to the materials learned in the course, and the ability to make logical comments.

### **Measurement of Learning Outcomes**

1. In-class quizzes and/or mid-term examination will be used to constantly test whether the materials taught in lectures are fully understood by students. Answers to the quizzes and mid-term examination will be delivered to students in a timely fashion to make sure that they learn from their mistakes. The final examination is cumulative and covers all the materials taught during the entire term. It may include multiple choice questions that allow a broad coverage of the materials taught in class and comprehensive questions, possibly conceptual or in case format, that test how much of the materials taught are learned and appreciated by students. (LO1, LO2, LO3, LO4)
2. Students are required to form individual groups. Each group is responsible to making a term presentation on materials related to property and liability insurance that they can draw from insurance trade magazines and news. Their presentations will be assessed based on whether they can identify important current development and issues in the property and liability insurance markets in Hong Kong and around the world, how well they comprehend the materials, and whether they are able to make critical comments using the knowledge they have learned in the course. (LO1, LO2, LO3, LO4)

**Assessment**

Continuous Assessment (Quizzes and/or Mid-term)	25%
Project	15%
Examination	60%
<b>Total</b>	<b>100%</b>

**Required Text**

Harrington, S.E. and Niehaus, G.R. Risk Management and Insurance. latest edition, McGraw-Hill.

**Supplementary Reading List**

P90 Cargo and Goods in Transit Insurance, 2014 Study Text, Diploma in Insurance, CII.

P93 Commercial Property and Business Interruption Insurances, 2014 Study Text, Diploma in Insurance, CII.

P94 Motor Insurance, 2014 Study Text, Diploma in Insurance, CII.

P96 Liability Insurances, 2014 Study Text, Diploma in Insurance, CII.

P98 Marine Hull and Associated Liabilities, 2014 Study Text, Diploma in Insurance, CII.

Vaughan E.J. and Vaughan T.M., *Fundamental of Risk and Insurance*, latest edition, John Wiley.

IIQAS Examination Study Notes for Paper 2, Vocational Training Council, Hong Kong. (This is particularly useful for students planning to take the examination.)

**Important Notes**

- (1) Students are expected to spend a total of 6 hours (i.e. 3 hours of class contact and 3 hours of personal study) per week to achieve the course learning outcomes.
- (2) Students shall be aware of the University regulations about dishonest practice in course work, tests and examinations, and the possible consequences as stipulated in the Regulations Governing University Examinations. In particular, plagiarism, being a kind of dishonest practice, is “the presentation of another person’s work without proper acknowledgement of the source, including exact phrases, or summarised ideas, or even footnotes/citations, whether protected by copyright or not, as the student’s own work”. Students are required to strictly follow university regulations governing academic integrity and honesty.
- (3) Students are required to submit writing assignment(s) using Turnitin.
- (4) To enhance students’ understanding of plagiarism, a mini-course “Online Tutorial on Plagiarism Awareness” is available on <https://pla.ln.edu.hk/>.