

FINC 4210 - Property and Liability Insurance

Spring 2014

L. Lee Colquitt, Ph.D.

I. Text and Material

Commercial Property and Liability Insurance - Institute Custom Publishing
Notes provided on Canvas

II. Course Description

Prerequisite: FINC 3200. This course addresses various types of commercial risks common to businesses of all sizes. In this course, we review several types of property and liability insurance, including building and personal property insurance, business income insurance, commercial general liability insurance, business automobile insurance, and workers compensation and employers' liability insurance.

III. Office

My office is room 303D in Lowder Hall and my telephone number is 844-3000. My office hours for the semester are Tuesday and Thursday from 9:30-10:30 and by appointment.

IV. Grading

Graded material in this course will consist of the following:

	<u>Percentage of Grade</u>
a. Midterm exam(with possible corrections)	25 %
b. Final exam (open book/notes)	25 %
c. Business risk project	35 %
d. Business risk presentation	<u>15 %</u>
	100 %

The following percentages of total points from all graded material will be used in determining final grades.

90% - 100% = A

80% - 89.9% = B

70% - 79.9% = C

60% - 69.9% = D

below 60% = F

V. Students with Disabilities

Students who need accommodations are asked to electronically submit their approved accommodations through AU Access and to arrange a meeting during office hours the first week of classes, or as soon as possible if accommodations are needed immediately. If you have a conflict with my office hours, an alternate time can be arranged. To set up this meeting, please contact me by e-mail. If you have not established accommodations through the Office of Accessibility, but need accommodations, make an appointment with the Office of Accessibility, 1228 Haley Center, 844-2096 (V/TT).

VI. Cheating

Cheating in any form is not acceptable behavior. The student is expected to be familiar with the University's policy regarding academic honesty. Any incidence of suspected cheating will be dealt with through appropriate judicial channels.

VII. Attendance

Class attendance is important and students are expected to attend class regularly. While there is no attendance requirement for normal class lectures, it is a common practice of mine to make extra credit opportunities or additional points I give a function of your attendance. Anything said during class time is assumed to have been communicated to the entire class.

VIII. Guest Speakers

For field trips, guest speakers, and class presentations, your highest level of punctuality, respect, and professionalism is expected. I will announce ahead of time when any of these is to occur. Any student who fails to attend will receive a three (3) point "participation deduction" from their final class average per absence. In addition, for guest speakers, if the class does not ask three (or fewer if time does not allow) intelligent/thoughtful questions of the speaker, the entire class will lose one (1) point off of their letter grade.

You should make every effort to be ON TIME for these events. It is highly unprofessional for you to be late on a day where others contribute to the class. Anyone who comes to class late on these days will lose one (1) point from their final class average for each day late.

IX. Groups

I will ask that you form groups for a class project. On the first day of class, please acquaint yourself with your classmates.

You should form groups of four students, and select a responsible group chairperson. By **Tuesday, January 14**, each chairperson should provide me with the form that is provided with this handout. The form that is handed to me must have each member's printed name and their signature.

The chairperson of each group will be the group's contact between the group and me. In the event that I need to communicate any information to the group throughout the semester, I will contact each chairperson. It will be his/her responsibility to get the information to each group member.

X. Midterm Writing Assignment

Each group will assign a portion of the project to each member. If you would like to have a first draft of your portion reviewed by me, then you can submit it in my office by 4:00 on **Wednesday, March 19**. This is optional. If you choose not to turn it in at this time, you will not be penalized. However, this will give each group an opportunity to get started on the project and also to get some feedback before the final project is due. This writing assignment will be viewed as if it were a portion of the larger project. So, you will need to use headings to identify the portion(s) of the larger group project you are working on. There won't need to be any introduction to the part that you are working on. Simply write it as you would if you were planning to incorporate it into the larger group project. This writing assignment should be double-spaced with a top, bottom, and side one-inch margin. The paper also should include a simple cover page to identify the author of the assignment.

XI. Business Risk Project

Specifics about the business risk project are discussed later in the syllabus. For each group, there will be only one grade assigned for the project. However, any adjustments to individual grades that the instructor feels is necessary will be made at the instructor's discretion. Any adjustments made to an individual's grade (presentation and/or project) will be based on the *Peer Evaluation Worksheet*, provided after the group project instructions.

XII. Business Risk Presentations

One of the most important skills you need as you enter the business world is oral communication. Yet, employers consistently remark that this ability is woefully underdeveloped in newly graduated college students. To help you develop your ability to concisely and effectively communicate your thoughts and develop your "team-work" skills, each group will present the class with the findings reported in your group project.

The last couple of weeks of the semester will be utilized for group presentations. Each presentation will last 20 minutes, and each group member should speak approximately the same length of time (5 minutes).

Grading of the group presentation will be done by your classmates and by the instructor. The presenting groups will be graded as a whole by the class. I will then grade each of the presenting students individually. The grading will be done similar to the following example:

Julie, Jack, and two other students form a group. The class assigns Julie an average score of 80. This portion of the grade counts for 40% of Julie's grade. In addition, I feel that Julie scored a 70 and my portion of her grade counts for 60% of her total score. Thus, Julie would earn a total of:

$$.4 (80) + .6 (70) = .32 + .42 = .74 = 74\%.$$

XIII. Tests

Tests will cover material from the lectures and text. I plan to give you a chance to correct a certain number of questions on your midterm (based on attendance) and I will likely scale the final exam (again, based on attendance). In the event that the midterm exam is missed, the student must contact me by noon of the following day to set up a time to makeup the exam. The student must provide a phone number or email address that will allow me to contact them within 24 hours. If this is not done, then a makeup exam will be given at the end of the semester.

XIV. Course Outline (subject to changes)

Topic	Chapters
Property Risk Management; Reading an Insurance Policy	CPCU 551 - 1 & Policy Handbook (Not in text)
Building and Personal Property Coverage	CPCU 551 - 3 & 4
Covered Causes of Loss	CPCU 551 - 5 (Not in text)
Business Income Loss Exposures; Business Income Coverage	CPCU 551 - 8 & 9
Midterm Exam	
Liability Loss Exposures	CPCU 552 - 1 (Not in text)
Commercial General Liability Insurance	CPCU 552 - 3 & 4
Business Auto Insurance	CPCU 552 - 5 (Not in text)
Workers Compensation and Employers Liability Insurance	CPCU 552 - 7 & 8 (Not in text)
Umbrella and Excess Insurance	CPCU 552 - 14 (Not in text)
Final Exam	

BUSINESS RISK PROJECT

The purpose of the group project is to provide you with an opportunity to conduct a risk management analysis of a small business in Auburn. The business you choose should meet two criteria: 1) the business needs to be managed locally, and 2) the business must be willing and to meet with you, answer some questions, and allow you to tour their business and take some pictures. Financial information provided by the business is helpful, but **not required**. Be very sensitive when asking for financial information. If the business owner is uncomfortable giving this information, then **DO NOT PURSUE IT ANY FURTHER**.

The following businesses have helped with projects in recent years and should not be approached to participate in a group project this year:

<p>Adventure Sports (2012) Auburn Family Dentistry (2011) Big Blue Bookstore (2010) Byron's Smokehouse (2011) Compass Construction (2102) E.A. Investments (2012) 4 Seasons (2012) Giggles and Coos (2010) Jim Phillips Dentistry (2013) Moore's Mill Club (2012) Opelika Sportsplex (2011) Quixote's (2013) Strutting Duck (2010) Tiger Town Embroidery (2010) Waverly Woodworks (2012)</p>	<p>Auburn Bank (2011) The Bank Vault (2011) Bizilia's (2013) Chill Yogurt Café (2011) Daylight Donuts (2010) Five Guys (2010) Franklin Tire (2013) Island Wing Company (2013) Mellow Mushroom (2013) Opelika Event Center (2013) Professional Cleaners (2012) Roly Poly (2010) Tiger Rags (2012) The UPS Store (2011)</p>
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I will need the name of your group's business, the contact at the business, and the business' address and phone number either given to me or slid under my door by 4:00 pm on **Tuesday, January 28**. Failure to turn this in by this time will result in a **three point deduction** from your project grade with one additional point deducted for every day it is late.

The first requirement of this project is that your group conducts an interview with the contact person at the business. This interview will involve the group members using a Risk Analysis Questionnaire to find out information about the business that will be used to conduct the risk analysis. The Risk Analysis Questionnaire will be an item placed in the appendix of the project. A completed Risk Analysis Questionnaire is due in my office by 4:00 pm on **Thursday, March 6**.

One strong recommendation I have is that you arrange to interview the contact person at your business within the first three weeks of the semester, if possible. There have been instances where an individual agrees to participate in the project and then later becomes uncooperative. Having your interview early allows your group to identify situations like this with time enough to pursue another business.

BUSINESS RISK PROJECT (cont)

The completed project is due by 11:00 a.m. (the beginning of class), **Thursday, April 17**. Projects not turned in at that time will be accepted. However, projects turned in later than the beginning of class but before 4:00 on April 17 will be penalized 10 points. In addition, projects received later than 4:00 on April 17 will be penalized an additional 10 points per business day. Good risk management procedures would suggest that you plan ahead and allow suitable time for typing, printing, binding, and preparation of your presentation. There will be NO extensions of the due date.

General Purpose of the Project

Your project should thoroughly analyze the pure risk exposures of a local organization. The emphasis should be on the insurance policies available to cover such needs. Sample projects for review are available in my office.

Outline of the Project

Your project should include each of the following sections:

- a. Table of Contents - Include major sections and page numbers.
- b. Description of Organization - You should provide sufficient information here to acquaint the reader with the business to an extent such that the rest of the project is meaningful. Photographs of the business should be taken and included in the analysis. The description should include (but not necessarily be limited to):
 - 1) Operations: What is the main business or operation? Are there additional activities the firm engages in?
 - 2) Location: Where is this organization? What type of environment surrounds it? How far away is it from a fire station? Are water hydrants available?
 - 3) Building(s): Briefly describe the number, size, and construction of buildings. Rough floor plan charts (indicating windows, exits, storage areas, employee-only areas) may be helpful.
 - 4) Rest of Premises: Indicate the size of the overall premises. A chart indicating building and parking lot locations would be useful.
 - 5) Property: Describe the kinds of machinery, equipment, and inventory with which the firm deals (general description – more detail is provided later).
 - 6) Customers: Discuss the types of customers who frequent the organization.
 - 7) Employees: How many and what type people are employed? Are there any "key" employees?

- c. Loss Exposures/Perils (Pure Risks) - This section should represent a major part of the project. Describe the exposures from pure risks that exist for the organization. This part of the project will consist of two parts:
- 1) A detailed description of the exposures themselves (inventory, other assets, equipment, income, etc.). References to financial records (if available), discussions with owners/managers, or information found on the internet should help in valuing many items. You should attempt to estimate dollar values for the exposures. You will most likely not have actual income numbers and so you should use income estimates so as to determine the potential loss of business income. Construct a simple income statement for the business and estimates of how the income might be produced in a normal year. I will not penalize you for what I think are inappropriate estimates of the business' income. I will penalize you for what I think is a lack of effort in constructing the business' income statement and estimates over the year.
 - 2) Identification of the most likely perils (wind, theft, fire, products liability, general liability, professional liability, liquor liability, etc.) and a brief description of the relevance of each to your business.
- d. Loss Experience (Pure Risks) - This section should discuss the previous loss experience of the firm. The details of the loss should be provided when possible. In addition, any changes in the risk management practices of the firm following the loss should be discussed.
- e. Insurance Recommendations - Describe the policies that you believe would be needed by the firm you are analyzing (given your findings in b., c., and d.). Make sure that you list the limits that you think are appropriate (given the value of the property being insured). **You are NOT evaluating their current insurance program, but rather making your own recommendations regarding what insurance policies/limits would be appropriate.**
- g. Non-Insurance Methods/Recommendations (Pure Risks) - In the process of doing this project, you will probably notice many loss control procedures already in effect for your organization, as well as numerous hazards affecting the likelihood of losses. Include a section describing existing loss control efforts, as well as suggested improvements not involving insurance that you believe are appropriate.
- h. Uninsurable Business Risk - This section should address any uninsurable business risk that might exist. This part of the project will likely be very different for each business. Competitive threats, political risks, narrow product lines, or a poorly diversified customer base are a few general examples of uninsurable business risks. Specific examples include: 1) the possibility of significant lost souvenir/apparel revenue for Anders or J&M resulting from a horrific Auburn football season; 2) the shutting down of Sky Bar due to the Auburn City Council designating part of the downtown area as being off-limits for establishments that primarily serve alcohol; or 3) the loss of revenue for a local veterinarian due to the University offering free veterinarian services in conjunction with the training/education of veterinarian students. It will be important that you inquire about these risks during the interview given that these risks are often most identifiable by someone who has been involved in the business for some time.

- h. Uninsurable Business Risk (cont) - In addition to identifying these risks, suggestions should be made with regard to what could be done to minimize the effects of these risks. Evaluate the costs and benefits of your suggestions. Don't offer up silly or ridiculous solutions. Keep in mind that it is quite possible that some/many of these uninsurable business risks are practically unavoidable and simply are risks that an individual faces when he/she chooses to go into business.

- i. Appendix - Include the following items at the end, as reference material:
 - 1) Completed risk analysis questionnaire
 - 2) Copy of the insurance policies that you recommend (provided by Dr. Colquitt)
 - 3) Copy of lease (if relevant)
 - 4) Copy of other calculations
 - 5) Other miscellaneous items

Presentation of Project

Your project should be one that you could feel comfortable with the business owner reading. I will not send a copy of the analysis to the business unless they request one (which has happened). However, I suggest that you maintain a degree of professionalism when putting the project together. Refrain from making jokes or being overly critical regarding any of the business' practices or decision-making. You can offer suggestions for change without making smart remarks about the owner or business.

Some recommendations intended to help you avoid alienating your reader (and thus biasing your grade) include the following:

1. All projects must be typed (double spaced) and printed using a laser or similar high-quality printer. There are absolutely no exceptions.
2. Proofread your project for errors involving omitted content items, spelling, grammar, and typing. Each group member should proofread the entire project, as uncorrected errors will affect your grade.
3. Provide headings (and as many subheadings as you feel are appropriate) within the text of your project. Use paragraphs to separate your ideas within sections. Try to avoid lengthy segments of text with no visible breaks.
4. The inclusion of photographs interspersed throughout the project to illustrate various points is strongly encouraged.
5. Provide a Table of Contents, listing the major divisions and their page numbers.
6. Have your project bound. The projects will be thick and bulky and easily susceptible to loss by dropping, scattering, etc., unless they are bound securely. This service can be obtained at numerous places on and around campus, but you should allow sufficient time for binding, especially at the end of a semester.
7. Good risk management procedure suggests that you keep a copy of your project in your possession, in case the original is lost, destroyed, or otherwise damaged. Graded originals will not be returned.
8. Projects are normally expected to include approximately 25 pages of text (including a reasonable number of pictures of the business).

Group Membership Form

Due Tuesday, January 14, 2014 (in class)

I understand that communication between group members is very important. I have provided my fellow group members with a phone number and/or email address that I will respond to within 24 hours. If my fellow group members can't reach me, they will provide this contact information to Dr. Colquitt. If Dr. Colquitt can't reach me within 24 hours, then this will result in a 10-point deduction from my group project for every 24 hour period that passes with no contact.

Please Print

Signature

Chairperson

Group Member

Group Member

Group Member

Group Member

FINC 4210: Property Insurance
 Spring 2014 - Lee Colquitt
 Group Project/Presentation Peer Evaluation Worksheet

BUSINESS NAME:

INSTRUCTIONS

#1) INCLUDING YOURSELF, rank order each of the members of your group based upon your assessment of effort and relative contribution to this project for each of the rating factors listed in the table for #2) below and list the parts (a., b., c., etc.) of the project that each person was primarily responsible for.

GROUP MEMBERS:	1: best:	Part(s)
	2: second best:	Part(s)
	3: third best:	Part(s)
	4: fourth best:	Part(s)
	5: fifth best:	Part(s)

#2) INCLUDING YOURSELF, give your opinion as to the grade that each member deserves for this group project/presentation (0 - 100).

RATING FACTOR	Group Member				
	1	2	3	4	5
Quality of Contribution to Group Discussions					
Quality of Contribution to Organizing Group Tasks/Assignments					
Quality of Contribution to Preparing Class Presentation					
Quality of Contribution to Writing Group Project					
Reliability in Completing Responsibilities Assigned to Them					
Commitment to Group Efforts (i.e. availability, on time)					
Overall Amount of Effort Made to Group Project/Presentation					
Would Want to Work With This Person Again (Y or N)					
If YOU had to grade this person's contribution, what would you give them (a numeric grade between 0 - 100)?					