JOURNAL OF RISK EDUCATION

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Editor's Report

I am pleased to bring to you the 2017 issue of *Journal of Risk Education (JRE)*.

Thanks to the reviewers and associate editors who worked so hard to achieve our goal of fast turnaround on the submissions we receive. Any delays in turnaround this past year are my fault and mine alone, due to several issues that I will spare you the details of.

I am pleased to announce that Dr. Brad Karl has agreed to serve as my co-editor beginning with this issue!

Please continue to send us your papers for consideration. If you have questions, don't hesitate to ask them. I can be reached at editor@jofriskeducation.org

Sincerely,

Brenda

Brenda Wells, Ph.D., CPCU, AAI, CRIS

Editor
Robert F. Bird Distinguished Professor of Risk and Insurance
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Call for Papers

The *Journal of Risk Education* (*JRE*) requests submissions of articles and other materials for its 2017 issues.

The journal offers several publication features:

Articles: double-blind peer reviewed articles related to risk management and insurance teaching and education. Both theoretical and pedagogical pieces are encouraged.

Editorials: editorially-reviewed commentary related to risk and insurance education.

Book Reviews: editorially-reviewed summaries of books and periodicals that pertain to risk management and insurance, with preference given to those items that have practical classroom applications.

Doctoral Perspectives: double-blind peer reviewed articles that are by or for doctoral students planning to become risk educators in the future. Any topic of relevance to doctoral candidates may be submitted.

Teaching Cases: cases for use in the risk management classroom. Teaching cases should be founded in the academic and practitioner literature, and will be double-blind peer reviewed.

To submit an article for consideration, please create an account on our website at www.jofriskeducation.org and follow our electronic submission process. If you are willing to serve as a reviewer for future papers, please contact the editor.

For questions and more information, please contact:

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Comparing and Contrasting Professional Chartering Bodies Globally and their Role in Risk Management and Insurance Education

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ABSTRACT

The areas of risk management and insurance (RMI) are major forces in the global economy, serving essential social and economic roles in covering business and personal risks. The strong overall growth projections of the insurance industry, along with greater sophistication among consumers, require a greater skill set among insurance professionals. The role of RMI professional designating bodies in helping to define standards for the risk management and insurance field – and to uphold high standards of professional practice – is critical towards achieving this goal. In this study we take stock of the professional and chartered bodies representing the RMI profession and strategize how these bodies may be strengthened to meet new challenges. We compare various chartering entities around the world and illustrate how some of them are partnering with RMI programs. Areas of improvement to overcome current and future challenges are also addressed.

Keywords: accreditation body; insurance sector; standards; chartered insurance

1. INTRODUCTION

The risk management and insurance (RMI) industry is a major component of the economy by virtue of the essential social and economic role it plays in covering personal and business risks. According to a survey conducted by Swiss Re, a leading global insurance firm, worldwide insurance premiums totaled US$4.55 trillion in 2015, which equaled about 6.2% of global GDP. Global life insurance premiums amounted to $2.53 trillion, while all other types of insurance accounted for $2.02 trillion. While the mature markets in North America, Europe and parts of the Asia-Pacific region currently dominate the industry, emerging countries such as China, India, Brazil and Indonesia, hold the greatest growth potential and are important to the future growth of the insurance industry.

According to the "Asia Insurance Market Report 2018" by Willis Towers Perrin, the Financial Services Authority (OJK) of Indonesia has expressed optimism that insurance and reinsurance premium revenue will reach IDR 258 trillion (USD 19.1 billion) by the end of 2017, a growth of 12% compared to 2016. They also report that 2017 was another year of strong growth for the Chinese insurance market. Motor insurance and six mega construction projects currently underway in China, each with investment value ranging between USD 8 to 10 billion, were the drivers of this growth. Impressively, China's life insurance premium in the first eight months of 2017 grew 27.29% compared to the previous year. Finally, the Indian insurance industry witnessed a double-digit growth of 17% in 2017. Reasons for their growth include a growing middle class, a young insurable population, and increasing awareness of insurance products and the introduction of government initiatives. With insurance penetration well below that of developed countries, this growth is expected to continue for many years.

The strong overall growth outlook for the global insurance industry, as well as rising household incomes, increasing life expectancies, and greater financial sophistication among consumers, will place an enormous

significance on the need for insurance and risk solutions along with the skills and professionals that are required to deliver them. The need for firms worldwide to comply with ongoing financial conduct regulations will also contribute to the growing demand for compliance, risk, and insurance professionals going forward.[1]

This demand highlights the key role that risk and insurance professionals have to play in ensuring that the public interest is best served wherever they are in the world. The role of RMI professional bodies in helping to define standards for the risk management and insurance field – and to uphold high standards of professional practice – is critical towards achieving this goal. Across the professional landscape, from accountants to civil engineers to financial planners, being a member of a strong, globally-recognized, and trusted professional body (or chartered body) stands as an indicator of the highest standards of learning and ethical behavior. The same holds for the risk management and insurance profession.

The often cited "talent gap" of concern when the industry has to replace an unprecedented number of retiring Baby Boomers over the next few years has attracted academic research. Utilizing survey data to examine potential workforce members' perceptions of the insurance industry, before and after such persons acquire knowledge of insurance industry operations, is a focus of a study by Karl and Wells (2016). They find that one effective method for improving the reputation of the insurance industry is to facilitate a setting where participants are provided with detailed information on various aspects of the industry, including its merits, potential career opportunities, and career satisfaction. Acharyya and Secchi (2015) survey United Kingdom students from Europe, Asia, South America, the Middle East and Africa to measure student preferences regarding a career in the insurance industry. They find that nationality, lack of adequate research, education providers, a short of study materials, inadequate marketing strategies, and a paucity of awareness regarding the underlying philosophy of the insurance business were among the key causes of students' hesitancy to engage with the insurance profession.

The links between professional bodies and higher education are multi-fold and are one tool for closing this gap. Cole and McCullough (2012) refer to efforts undertaken by insurance educational organizations in Australia, Canada, New Zealand, and the United Kingdom to attract the interest of talented individuals in considering an insurance career. Some professional bodies directly participate in collegiate programs, others take over where collegiate programs leave off by providing their practitioner members with continuous training and professional development to keep their knowledge and skills up-to-date. In supporting lifelong education and developing professional excellence, professional societies often serve an educational mission. In addition, given that the professional bodies represent the individual disciplines for which they are named, the standing of a professional body plays a critical role in ensuring the continued inflow of high quality students to the discipline. Attracting high quality entrants and competing for talent in today's world is vital to each and every profession. Accordingly, in the call to move RMI education forward, it is valuable to take stock of the professional and chartered bodies representing the RMI profession and strategize how these bodies are strengthened to meet new challenges. Insurance is increasingly global, and a review and comparison of the accrediting bodies provides information of use to multinational insurance companies. As discussed in section 2 below, there are a number of additional services offered by some entities, beyond the accrediting examinations, that should be of interest to the industry as well as insurance educators. The remainder of the paper is structured as follows. Section 2 describes the concept of chartered professionalism and the roles of a professional body. Section 3 presents the international and regional

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[1] As an example, direct life insurers in the U.S. and other countries that issue or underwrite covered products are held responsible for compliance with anti-money laundering regulations (see, e.g. NAIC 2005). Insurance companies will thus benefit from having well-trained risk and insurance professionals, including insurance agents and brokers, who are attuned to policies and procedures relating to anti-money laundering regulatory requirements and related compliance areas. RMI professional bodies offering continuous training and professional development courses to their members are well-positioned to fill this training gap.

professional bodies representing the RMI profession. We compare the various chartering entities around the world, and where applicable, illustrate how they are working with RMI collegiate programs. Section 4 highlights some areas for review to better address current and future challenges. Section 5 concludes with suggestions for maximizing the efficiency of relationships between RMI programs and chartering organizations.

2. CONCEPT OF CHARTERED PROFESSIONALISM

A professional body (also referred to as professional association or professional society) is generally defined as a nonprofit organization that seeks to further a particular academic discipline or profession and serve the interests of individuals engaged in that profession and the broader public interest. Professional bodies may have a number of functions, which typically include the development and monitoring of professional educational programs, performing professional certification, implementing a code of conduct, providing support for continuing professional development and networking opportunities, and maintaining oversight of the profession. Some professional bodies may also have regulatory functions. Arguably, a broad overarching goal for most professional bodies is to raise the overall status of the specific profession so that the professional practitioners are well-perceived by society.

For individual professionals, the choice of whether to join a professional body or not may depend on circumstances. In some professions, membership of a professional body is compulsory and a prerequisite to working in that particular profession. In other professions, it is not the case. In the field of accounting, for example, membership in a recognized accounting professional body is typically required before working practitioners have the 'license to practice' or sign off on a company's accounts. By contrast, it is not uncommon for students with majors in business or finance to progress into financial planning careers without having first registered with a financial planning-related professional body.[2] To a lesser extent, the choice of participation in a professional body may also depend on sponsorship, monetary costs, level of expected benefits, and additional certification requirements. According to the Markova et al. (2013), one of the primary benefits of membership within a professional body is the sense of recognition and a marketable social identity. Because a professional body represents a specialized set of professional knowledge, membership in a professional society signals distinctiveness and a high standard of competence and work worthiness. Thus, members can use this status to market themselves to employers and/or gain recognition.

Other benefits that individuals gain from joining professional associations commonly include access to knowledge-based resources, networking, employment assistance, training and certification, technical advice on standards, free subscriptions to industry publications, and so on (Hovekamp 1997; Fisher 1997; Minter 2001; Tschirhart and Gazley 2014; Ki and Wang 2016). Being part of a professional body generally provides an individual access to knowledge-based resources such as books, databases, journals, and research publications. This access to relevant and up-to-date information is important to boosting a member's knowledge and understanding of his or her discipline in a consistent and flexible way, thereby allowing the individual to work in an effective, productive, ethical and professional manner. Conferences, workshops, and other learning opportunities allow members to meet their fellow members in person while enhancing their knowledge in their specific area of interest. Sometimes, a professional body may also host "specialist groups" to cater to members with specific areas of interest or topical issues.

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[2] Although acquiring certifications like the Certified Financial Planner (CFP) are viewed as best practice for financial advisors, they are purely optional and not a pre-requisite for practice. According to a recent news report, only about 20% of financial advisers in the U.S. have the CFP certification (Reuters 2014).

Many professional organizations also offer career support and opportunities via job listings or recommendations to enable members to advance their careers through their networks (Myers 1994; Schein 1968). In some cases, professional bodies may function as formal standards-setting bodies to develop, coordinate, promulgate, revise, and issue technical standards for adoption nationwide, or at state level. This standard-setting process may directly rely on contributions by current members. In turn, members can look to the professional body on a day-to-day basis to provide them with technical advice and guidance, for example, advice on how a particular standard should be interpreted, or how to handle ethical dilemmas, and other situations.

One of the most important roles of professional bodies is helping to define and raise the level of professional excellence for their respective fields. This usually involves setting the formal route for qualification or certification, in terms of examinations and assessment, competence and work experience required, and standards for professional ethics. A professional association may also promote high standards of quality through awards and other forms of recognition. Finally, most professional bodies offer a way to climb up the membership ladder towards being a 'Chartered' professional or a 'Fellow.' A 'chartered' professional is defined as one who has gained a certain level of skill or competence in a particular field of work, as recognized by the award of a formal credential by a relevant professional organization. A 'chartered' status is considered a mark of professional competency and signifies valued qualities such as integrity, knowledge and competence.

Interestingly, the development of the concept of chartered professionalism in the U.S. has deep linkages with the field of risk management and insurance. It appears that the first use of a 'chartered' title in the U.S. began in 1927 with the establishment of the American College of Life Underwriters (now The American College of Financial Services) offering the Chartered Life Underwriter (CLU®) designation (American College of Financial Services 2018). The creation of the CLU® designation is notable because it marks the first adoption of a professional title without need for government permission by either Charter or Act of Congress. This is followed many years later by the creation of the Chartered Financial Analyst designation in 1963 by the CFA Institute. Today, the chartered status is generally perceived as a terminal qualification in a particular profession.

3. RMI PROFESSIONAL BODIES AROUND THE WORLD

In this section, we present the international and regional professional bodies representing the RMI profession. We review the branding and coverage of several insurance institutes, focusing on those offering charter or fellowship designation programs. Where applicable, we also illustrate examples of how the professional bodies are working with RMI collegiate programs.

Table 1 provides a list of various RMI societies that are active in countries around the world. It is not meant to be a comprehensive listing, but rather meant to showcase the diversity of RMI professional bodies. We note that almost all of the professional bodies name and distinguish themselves geographically. One exception is the International Insurance Society (IIS). The IIS was founded in 1965 in the U.S., and its mission is one of international collaboration. The IIS aims to bring together key decision makers from the insurance industry to combine their knowledge of regulatory issues, finance, and governance, and serves as a forum for all stakeholders of the insurance community to engage in active collaboration. Members include insurance professionals, regulatory authorities, and insurance scholars from over 90 countries. Its signature event is the annual Global Insurance Forum.

Table 1: RMI professional bodies around the world

RMI accreditation bodies	Country (Year established)	Examples of designation programs offered
North America		
International Insurance Society www.internationalinsurance.org/	U.S. (1965)	In 2017, IIS launched the Global Centers of Insurance Excellence, a certification program designed to recognize universities and colleges with outstanding risk management and insurance programs and enhance their connections with the insurance industry.
The Institute for Global Insurance Education www.igie.org/	U.S. (1996)	An association comprised of independent, international insurance institutes united by a common goal to deliver professional education to insurance industry professionals. Its members include the CII in U.K., III in India, and IIS in Switzerland.
The Institutes www.theinstitutes.org/	U.S. (1909)	Chartered Property Casualty Underwriter
The American College of Financial Services www.theamericancollege.edu/	U.S. (1927)	Chartered Life Underwriter (CLU®); Chartered Financial Consultant (ChFC®).
The Life Office Management Association (LOMA) www.loma.org/	U.S. (1924)	Fellow, Life Management Institute; Fellow, Secure Retirement Institute.
The National Alliance for Insurance Education & Research www.scic.com/	U.S. (1969)	Certified Insurance Counselors; Certified Insurance Service Representative; Certified Risk Manager; Certified School Risk Manager.
Insurance Institute Canada www.insuranceinstitute.ca/	Canada (1899)	Fellow Chartered Insurance Professional (FCIP); Chartered Insurance Professional.
Europe		
Chartered Insurance Institute www.cii.co.uk/	U.K. (1912)	Fellowship of the Chartered Insurance Institute (FCII); Chartered Insurance Broker; Chartered Insurer; Chartered Insurance Practitioner; Chartered Insurance Risk Manager; Chartered Financial Planner.
Insurance Institute of Switzerland www.insurance-institute.ch	Switzerland (2000)	Associate in Commercial Underwriting; Associate in Reinsurance; Associate in Risk Management.
Insurance Institute of Ireland www.iii.ie/qualifications	Ireland (1885)	Certified Insurance Practitioner*; Management Diploma in Insurance*.
The Chartered Institute of Loss Adjusters	U.K. (1961)	Chartered Institute of Loss Adjusters Fellow.

RMI accreditation bodies	Country (Year established)	Examples of designation programs offered
www.cila.co.uk		
Asia		
The Chartered Insurance Institute Hong Kong (formerly Insurance Institute of Hong Kong) www.cii.co.uk/membership/local-and-global/hong-kong/	Hong Kong/ People's Republic of China (1967)	Same offerings as U.K. CII.*
Singapore College of Insurance www.scicollege.org.sg	Singapore (1974)	Chartered Life Underwriter®/ Singapore (CLU®/S); Chartered Financial Consultant®/ Singapore (ChFC®/S); Diploma in General Insurance & Risk Management; Diploma in Life Insurance; Insurance Executive Program*.
Malaysian Institute of Insurance www.insurance.com.my	Malaysia (1968)	Fellow of the Malaysian Insurance Institute (FMII); Associate of the Malaysian Insurance Institute.
Insurance Institute of India www.insuranceinstituteofindia.com/	India (1955)	Fellowship (life/non-life branch); Associateship. N.B. Admits Fellows of the CII (U.K.), Institute and Faculty of Actuaries (U.K.), and Institute of Actuaries of India as its Fellows.
Academy of Finance www.hvtc.edu.vn/english	Vietnam (1963)	Bachelor of Insurance; Bachelor of Economics (specialized in Insurance). Partners with various local and foreign education institutions to offer degree and masters programs.
Sri Lanka Insurance Institute http://slii.lk/about-us	Sri Lanka (1981)	Insurance Foundation Certificate; Diploma in Insurance Practice.
Oceania		
Australian and New Zealand Institute of Insurance and Finance https://anziif.com/	Australia & New Zealand (1884)	Fellow (Certified Insurance Professional).
Australasian Institute of Chartered Loss Adjusters www.aicla.org/		Chartered Loss Adjuster.
Africa		
Insurance Institute of South Africa www.iisa.co.za/	South Africa (1966)	Insurance Institute of South Africa Fellow.

RMI accreditation bodies	Country (Year established)	Examples of designation programs offered
Insurance Institute of Egypt www.iiegypt.com/	Egypt (2007)	An approved exam center for professional certificates and designations offered by the CII (U.K.),* The Chartered Institute of Loss Adjusters (U.K.), The Institutes (U.S.), LOMA (U.S.), and others.
Insurance Institute of Zimbabwe www.iizim.co.zw/	Zimbabwe (1982)	Associateship in Insurance; Diploma in Insurance.
Insurance Institute of Botswana www.iib.co.bw/	Botswana (2016)	Provides professional development through the seminars and technical training sessions. Membership categories include Individual; Professional; Corporate; General; and Honorary Life Members.

Note: Asterisk indicates a pathway program to the ACII or FCII designations conferred by the U.K. Chartered Insurance Institute.

Although IIS does not offer any designation programs for individuals, it is active in the insurance education landscape. In 2017, IIS launched the Global Centers of Insurance Excellence (GCIE) program whereby the GCIE designation is awarded to universities and colleges that meet stringent criteria focused on course offerings, graduate and industry employment rates, as well as professional involvement (AIR 2017). The universities must also demonstrate that students are learning primarily from a designated full-time faculty with appropriate academic qualifications and research expertise. Twenty universities from around the world (13 from North America, 5 from Europe, and 2 from China) were designated in in the program's inaugural year.

The Institute for Global Insurance Education is also a globally-based entity. Established in 1996, it is an association comprised of independent, international insurance institutes united by a common goal to deliver professional education to insurance industry professionals. Its members include The Institutes (U.S.), the Chartered Insurance Institute of Great Britain, and the Insurance Institute of Canada, among others. It does not offer any designation programs for individuals. Rather, its role as a global insurance educational institute is to assist members in assessing the quality of various insurance educational courses, provide guidance in needs assessment, course development and examination protocol, and also to support the mutual respect and understanding between established Institutes and build on those relationships.

3.1 North America

Among the U.S.-based RMI professional bodies with long histories are The Institutes, and The American College of Financial Services. The Institutes (Risk & Insurance Knowledge Group) brands itself as the leading provider of professional education for the risk management and property-casualty insurance industry. It is formed in 2009 when the Insurance Institute of America (established in 1909) merged with the American Institute of Chartered Property Casualty Underwriters (established in 1992), which means the organization has effectively been around for more than a century. The American College of Financial Services, established in 1927, positions itself as helping insurance and financial services professionals to realize their career goals through rigorous and practical education.

Both The Institutes and The American College of Financial Services offer rather specialized designation programs. The Institutes' key designation program is the Chartered Property Casualty Underwriter (CPCU®) targeted at insurance agents, claim representatives, risk managers, and underwriters. The requirement for the CPCU® designation includes four foundation courses, three mandatory courses, one elective course, and work experience in acceptable insurance activities. The American College's long-standing Chartered program is the Chartered Life Underwriter (CLU®) title. It targets practitioners in the life insurance and risk management sector or individuals wishing to specialize in life insurance for business or estate-planning purposes. The requirement for the CLU® designation includes five required courses plus three elective courses. There is no requirement for a board exam.

The Insurance Institute Canada (IIC) has been established since 1899 and is the premier provider and authority on professional development within Canada's property and casualty insurance industry. It offers two designation programs, namely the Chartered Insurance Professional (CIP) and Fellow Chartered Insurance Professional (FCIP). The FCIP program features six online courses which cover topics in strategy, leadership, financial management, enterprise risk management and emerging issues. Courses are guided by expert facilitators and are designed to help candidates fit their studies around their work schedule. In contrast to the specialized CPCU® and CLU® designations, the CIP designation appears somewhat more harmonized with the accreditation programs offered by other international institutes. Specifically, the IIC's website states: "our designations can *sometimes* count towards accreditation programs with other international institutes, including The Institutes (U.S.), The Chartered Insurance Institute (U.K.), and The Insurance Institute of Ireland." This suggests there may some reciprocity agreements between the IIC and other insurance institutes, but outcomes are likely to vary case-by-case.

A number of RMI professional bodies offer general certificate programs in lieu of chartered designation programs. One example is The National Alliance. Established in 1969 in Austin, Texas by a small group of independent insurance agents, The National Alliance's cornerstone program is the Certified Insurance Counselors (CIC) program – a national, high-quality continuing education program for independent insurance agents. It aims to be a transformative learning resource for risk and insurance professionals through adaptive technology and practical instruction. The National Alliance offers over 2,500 programs annually in the U.S., Mexico, and the Caribbean, which have been attended by more than 130,000 participants. Some program offerings include the Certified Insurance Service Representative, Certified Risk Manager, and Certified School Risk Manager designations, and these programs have an annual continuing education requirement.

3.2 Europe

Some prominent RMI societies in Europe include the Chartered Insurance Institute (CII) in the U.K., the Insurance Institute of Switzerland, the Insurance Institute of Ireland (III), and the Chartered Institute of Loss Adjusters. The CII – in particular – is currently one of the world's largest professional bodies for the insurance profession, as well as the financial planning profession. It has over 120,000 members. Being one of the largest examination awarding bodies in the U.K., the CII has delivered education to students in more than 150 countries thus gaining much global recognition over the last decade. Members have access to the technical, market and regulatory knowledge making it easier for them to do their jobs professionally. The CII also has connections with 58 local institutes in the U.K., as well as other international affiliates.

CII membership is open to anyone working in or connected with insurance or financial services, or university students with aspirations of joining the profession. Membership tiers under the CII designation program are as follows: student (Discover membership), ordinary, certificate, Diploma in Insurance (DipCII), Advanced

Diploma in Insurance (ACII), and Fellowship of the Chartered Insurance Institute (FCII).[3] FCII is the highest qualification awarded by the CII. Individuals with ACII who have also accumulated required work experience may progress to the FCII level and are eligible for Chartered status. CII's Chartered titles (including Chartered Insurer, Chartered Insurance Broker, Chartered Insurance Practitioner, and Chartered Insurance Risk Manager) are intended to reflect career specialism.

The Insurance Institute of Ireland was established in 1885. It is headquartered in Dublin with local institutes in other parts of the country and has about 17,500 members. The three main goals of the III are to Educate (equip members with the skills and knowledge they need to build successful careers and protect their customers); Inspire (share expertise and insights to inspire both professional development and industry progress); and Connect (engage with members so they can connect with customers, opportunities and peers). Among its key designation programs are the Certified Insurance Practitioner program (requires the completion of the Professional Diploma in Insurance academic program and six examination modules) and the Management Diploma in Insurance program. Specifically, these are pathway programs towards the ACII and FCII designations awarded by the U.K. Chartered Insurance Institute.[4]

3.3 Asia and the Oceania

Throughout Asia, there are several RMI professional bodies with an active membership base. This includes the Insurance Institute of India, the Singapore College of Insurance (SCI), the Insurance Institute of Hong Kong (IIHK), the Malaysian Institute of Insurance, and the Academy of Finance in Vietnam. A significant proportion of these entities are affiliated with the U.K. Chartered Insurance Institute. Most notably, the IIHK has recently merged with the U.K. CII and no longer exists as a separate entity. This merger partly reflects CII's strategy for international growth and its commitment to develop the Institute's presence across South East Asia and the Asia Pacific region. The merged entity, known as The Chartered Insurance Institute Hong Kong (CIIHK), is now Hong Kong's foremost professional body for insurance and financial planning.

The Singapore College of Insurance is a not-for-profit professional training body set up in 1974, as part of Singapore's efforts to develop as a financial hub. SCI's focus is to upgrade the technical expertise of financial advisory, as well as life and general insurance practitioners, and to provide them with professional advancement opportunities through its internationally-accredited qualifications. For example, it administers the Chartered Life Underwriter®/Singapore (CLU®/S) and Chartered Financial Consultant®/Singapore (ChFC®/S) programs whereby the designations are directly awarded by SCI under license from The American College. Note however that these programs are based on Singapore laws. If a ChFC/S holder wishes to practice in the U.S., he or she will need to take the U.S. equivalent papers for the ChFC/U.S. title which means the titles are actually not transferable across the professional bodies. The SCI is also affiliated with the U.K. CII and provides pathway programs (e.g. the Insurance Executive Program) leading to the ACII designation. In addition to its educational offerings, the SCI helped set up the Asia-Pacific Risk and Insurance Association to further RMI education, and to promote links between academia and the industry.

The Australian and New Zealand Institute of Insurance and Finance (ANZIIF), established in 1884, is formerly the Victorian Insurance Institute and New South Wales Insurance Institute. It has since grown into an international organization with members in 50 countries. It partners with companies, government, and non-profit organizations to enhance the standards, reputation, and success of the insurance and finance industry. ANZIIF operates as a registered training organization under the Australian Quality Training Framework and offers

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[3] See full list of CII membership designations at http://www.cii.co.uk/membership/designations/.
[4] Details at: http://www.cii.co.uk/about/accreditation-services/accreditation-schemes-for-individuals/recognition-of-prior-learning/.

certificate courses in underwriting, brokerage, and claims. ANZIIF offers the Certified Insurance Professional (CIP) designation program, which targets practitioners in the insurance and financial services industry.[5] Membership tiers under the ANZIIF CIP designation program are as follows: student, allied, affiliate, associate, senior associate, and Fellow.

3.4 Increasing Coordination between RMI Programs and Designating Bodies

Over the past decade or so, accreditation bodies have increasingly recognized the long-term benefits of aligning with risk management and insurance collegiate programs. Students taking courses within these RMI programs are considered more likely to pursue a career in those areas and also have a higher probability of persisting in risk or insurance-related professions.[6] A logical extension of this argument is that today's RMI students would be more likely to work toward designations offered by these bodies after graduating and becoming employed as insurance professionals. By offering them credit toward these designations through their university coursework, these designating bodies are effectively creating a pipeline of future participants in their various designation programs. Some of the leading partnership arrangements between RMI accreditation bodies and collegiate programs globally are listed in Table 2. These include the partnership between The Institutes and accredited colleges and universities in North America; the partnership between the Chartered Insurance Institute and Cass Business School in the U.K., and separately, CII's partnership with the Lingnan University in Hong Kong; and the partnership arrangement between ANZIIF and Charles Sturt University, as well as the Australian Catholic University in the Oceania.

Table 2: Examples of arrangements between RMI accreditation bodies and collegiate programs

RMI accreditation body / University partner	Details of partnership arrangement
The Institutes in U.S./ Accredited U.S. colleges and universities	Qualifying colleges need to be accredited and offer a course based on an Institutes textbook that is used in the CPCU program. Colleges and universities are not required to offer an RMI major and can have multiple courses qualified through the program. The Institutes will waive up to two courses within the CPCU program for qualifying students at approved colleges and universities. To qualify, students must complete their coursework at an approved college or university, and they must have earned a "B" or better as the final grade in the class. Students who earn two CPCU course waivers and complete Ethics and the CPCU Code of Professional Conduct will also earn The Institutes' Collegiate Studies for CPCU Certificate. Source: www.theinstitutes.org/e_campaigns/collegiatestudiescpcu.php

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[5] Insurance Institute Canada's CIP program bears the same acronym but stands for *Chartered* Insurance Professional instead of *Certified* Insurance Professional.

[6] According to a 2013 survey of 116 institutions in 25 countries, the RMI field or profession is generally viewed as attractive to students who are studying RMI subjects, and viewed as very attractive to those already working in the RMI industry (Kwon 2015).

RMI accreditation body / University partner	Details of partnership arrangement
The National Alliance in U.S./ Participating U.S. colleges and universities	Students in participating U.S. colleges and universities can use approved university RMI coursework to obtain credit toward The National Alliance's Certified Insurance Counselor or Certified Risk Manager designations. Depending on the course, students who successfully complete approved university coursework will receive credit for one part of the designation. Participating students are then given the opportunity to receive an additional part of the corresponding designation by passing a proctored exam. This partnership aims to give aspiring young professionals recognition for their hard work while also giving them a distinct advantage when entering the insurance and risk management workforce. Source: https://www.scic.com/courses/university_programs
Chartered Insurance Institute in U.K. / Cass Business School in U.K.	Students in the MSc in Insurance and Risk Management program have the opportunity to earn substantial exemptions from professional examinations in the field of insurance and risk management, including 205 - 210 credits towards the 290 required for the Chartered Insurance Institute Advanced Diploma (ACII). Exemptions are also given from some examinations of the Institute of Risk Management. Source: www.cass.city.ac.uk/study/masters/courses/insurance-and-risk-management
Chartered Insurance Institute in U.K. / Lingnan University in Hong Kong	Graduates of the BBA(Hons) Risk and Insurance Management Programme in Lingnan University are eligible to receive a maximum of 155 credits from the U.K. Chartered Insurance Institute. If a student has earned 100 credits then by taking two CII exams, insurance law and business, they will be awarded the DipCII designation. It is possible for students to earn a BBA - RIM degree and the DipCII at graduation. Separately, graduates are eligible for the Senior Associate membership of the ANZIIF. Source: https://www.ln.edu.hk/fin_ins/rim-jupas.php#Accreditation
The Australian and New Zealand Institute of Insurance and Finance (ANZIIF) / Charles Sturt University	Charles Sturt University and ANZIIF have jointly designed the Bachelor of Business (Insurance) undergraduate degree. This degree combines the study of insurance specific subjects offered by ANZIIF with broader financial services subjects offered by Charles Sturt University. It is an internationally recognized degree and provides access to post-graduate studies. The course is also open to ANZIIF members who have attained the level of Senior Associate CIP or higher and who have completed an approved ANZIIF certificate qualification. Source: https://anziif.com/education/pathways-to-university-studies
The Australian and New Zealand Institute of Insurance and Finance (ANZIIF) /	Australian Catholic University's partnership with ANZIIF provides credit point transfers from ANZIIF's Diploma of Financial Planning to the Australian Catholic University's Bachelor of Commerce, Bachelor of

RMI accreditation body / University partner	Details of partnership arrangement
Australian Catholic University	Business Administration or Bachelor of Business Administration/Financial Services. ANZIIF students can gain up to 80 points of the 240 points required to complete the ACU's higher education qualifications. Source: https://anziif.com/education/pathways-to-university-studies

4. CHALLENGES AND ASPECTS FOR REVIEW

Risk management and insurance professional bodies have an important role of shaping the professional identities as they are presented to others outside the profession. They are arenas through which individuals within the RMI discipline interact and collectively represent themselves and are essential for helping to define standards for the RMI field. Our review of the scope and activities of the various RMI societies around the world highlight several aspects which the entities can review in order to develop strategies to ensure their continuing relevance and contribution to markets and the public interest.

First, our comparison highlights substantial heterogeneity in the types of professional qualifications available to insurance industry professionals. Specifically, for a student in the risk management and insurance discipline and who aspires to work in the insurance industry, he or she may be confronted with the tough question of which post-graduate qualification to pursue. On the one hand, specialized designations such as the Chartered Property Casualty Underwriter or Chartered Life Underwriter seem to reflect much career specialism. On the other hand, general qualifications such as the Fellowship of the Chartered Insurance Institute designation may have broader applicability for future career development. Or perhaps for a young professional today, the thought of gaining an MBA or MSc will be more appealing than the pursuit of a Chartered insurance qualification or FCII altogether. Indeed, one critique of the FCII is that it supports a technical career path rather than a managerial career path (Scott 2015).

Part of the observed heterogeneity arises because of the lack of harmonization across RMI designation programs.[7] This contrasts with the professional programs in other disciplines such as the actuarial studies discipline. Specifically, in the field of actuarial studies, Associateship and Fellowship professional qualifications conferred separately by the U.S. Society of Actuaries (SOA) and the U.K. Institute and Faculty of Actuaries (IFoA) have mutual recognition. This mutual recognition agreement is a reciprocal agreement between one actuarial body and another actuarial body which recognizes each other's professional qualifications. In the context of RMI societies, however, evidence of formal mutual recognition agreements is limited. For example, the Insurance Institute Canada's website states: "our designations can *sometimes* count towards accreditation programs with other international institutes." Where some form of mutual recognition between professional bodies exists, the matching of membership levels is confusing. For instance, according to ANZIIF's materials, an 'overseas' qualification such as the FCII designation (from U.K.'s Chartered Insurance Institute) is equivalent to a Senior

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[7] Cole & McCullough (2012) acknowledge that although there have been discussions among insurers, organizations, and academics about the best ways to address the talent gap issue, often each group works primarily in isolation. A few years ago, the Griffith Insurance Education Foundation sponsored The Insurance Education & Career Summit. The Summit's purpose was to create a unified strategy to both attract and retain skilled workers to the insurance industry, ideally working to create the next generation of insurance executives. We believe the potential associated with organizing such a summit on a global scale is worth investigating.

Associate level (one tier below Fellowship level) under ANZIIF's CIP program (ANZIIF 2016).[8] Quite perplexingly, the same document also states that an individual holding just an Undergraduate (Insurance Major) from Nankai University in China is also equivalent to a Senior Associate level under ANZIIF's CIP program.

Second, it is unclear how the RMI professional bodies currently define the specific competencies and underpinning knowledge required of their practitioners in the initial education stage. Specifically, Harvey et al. (1995) argue that professional bodies should make the distinction between initial education and professional training. Thus, while RMI professional bodies may vary in their course offerings for insurance industry professionals, the initial education of RMI scholars and students at the university level would benefit from a defined common body of knowledge and specific competencies required for practice in the insurance and risk management field. This is regardless of whether the individual chooses later to specialize in financial advisory, broking, claims, life, non-life, pensions, or underwriting sub-disciplines. Lacking this investment in syllabi, the entry requirements into the insurance profession is uneven and, over time, the RMI industry may find it difficult to secure and retain high quality entrants into the profession.

In our review of various RMI societies around the world, the entity arguably most advanced in this endeavor appears to be the U.K. Chartered Insurance Institute. The CII is one of the largest examinations awarding body within the RMI discipline and has strong global presence. The CII conducts exams sittings in various countries and its online learning facility is of significant interest to international students and members. Some universities such as Nanyang Technological University in Singapore offer insurance courses that cover topics which correspond to the CII units. Lingnan University in Hong Kong has a program partnership with CII so that students can earn both a BBA (RIM) degree and the DipCII simultaneously at graduation. Such value propositions may be attractive to prospective students. Nonetheless, gaps in syllabi development still exist. For example, it was not until recently that the CII realized that it was possible for a candidate to attain the ACII qualification without having studied core insurance disciplines (broking, claims and underwriting) at the Advanced Diploma level (CII 2013).

Third, the distinction between the "chartered" and "non-chartered" RMI professional bodies might be worth further investigation going forward. In any profession, there is a vital difference is between a "chartered" and "non-chartered" professional body for the main reason that the 'Fellowship' or 'Chartered' title is universally regarded as the premier qualification for those working in the industry. Consequently, if the 'Fellowship' or 'Chartered' title is to have any importance and standing, then it is critical that the qualifying requirements be stringent. Table 3 lists the RMI 'Fellowship' or 'Chartered' titles alongside their respective entry requirements where available. We find large inconsistencies. For example, the award of the Chartered Loss Adjuster designation requires only a Diploma of Financial Services (Loss Adjusting) whereas the Fellowship of the Chartered Insurance Institute designation is pitched at the Advanced Diploma level. In some cases, such as the Chartered Life Underwriter designation and the Chartered Property Casualty Underwriter designation, the completion of on-line coursework and exams suffices without any additional requirement for a comprehensive board examination (Cussen 2017). Consequently, some RMI designation programs may be perceived as somewhat less rigorous when compared against designations programs in Finance, including the Chartered Financial Analysis (CFA®) program or the Certified Financial Planner (CFP®) program.

Table 3: Various Chartering Entities and Entry Requirements

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[8] To attain a FCII designation, an individual must be a CII member, completed ACII/ Associateship, been employed (or self-employed) in insurance for at least four years, be wholly or mainly engaged or employed in work connected with insurance, and satisfy three years of Continuing Professional Development requirements.

Designation Title	Chartering Entity	Entry Requirements
General		
Fellowship of the Chartered Insurance Institute (FCII).	Chartered Insurance Institute, U.K.	Pre-requisite=ACII (pre-req. courses= minimum of 290 CII credits, with at least 205 CII credits at Diploma level or above, including at least 150 CII credits at Advanced Diploma level); Completed Advanced Diploma exams; Minimum 4 years of employment (or self-employed) in insurance; CDP requirements for at least 3 years.
Chartered Insurance Broker; Chartered Insurer; Chartered Insurance Practitioner; Chartered Insurance Risk Manager.		Pre-requisite = ACII or FCII; Minimum 5 years of work experience. Source: http://www.cii.co.uk/qualifications/fellowship-qualification/
Fellow Chartered Insurance Professional.	Insurance Institute Canada	Pre-requisite= CIP designation, (pre-req. courses=5, electives =3); Have an undergraduate degree from a Canadian university (or equivalent) or a college diploma with additional course requirements; 6 required courses on a part-time basis; Minimum 5 years of insurance or related financial services experience. Source: https://www.insuranceinstitute.ca/en/cip-fcip -designations/fcip
Fellow (Certified Insurance Professional).	Australian and New Zealand Institute of Insurance and Finance	Pre-requisite= CIP designation; Completed an ANZIIF-approved post-graduate programs (e.g. Graduate Diploma of Insurance from Deakin University); a minimum of two consecutive years as a CIP; Minimum 5 years of insurance/finance industry work experience; completion of the Business Ethics Program. Source: https://anziif.com
Fellow, Life Management Institute (FLMI).	Life Office Management Association, U.S.	A 10-course professional development program: Level 1 (Certificate) 2 courses, Level 2 (Associate, Life Management Institute) 3 courses, and Level 3 (5 courses).
Fellow, Secure Retirement Institute (FSRI).		Level 1 (Certificate in Retirement Essentials), Level 2 (Associate, Secure Retirement Institute), and Level 3 (SRI 500). Source: www.loma.org/ProfDev/Designations
Fellow of the Malaysian Insurance Institute (FMII).	Malaysian Institute of Insurance	Pre-requisite= Associateship of The Malaysian Insurance Institute, or ACII (UK), and has a recognized

Designation Title	Chartering Entity	Entry Requirements
		professional qualification or degree in any discipline; Attained the age of 23 years old; Minimum 4 years of being engaged or employed in the insurance industry; Passed the Prescribed Examinations. Source: www.insurance.com.my/index.php/levels-of-membership-2
Fellowship (life/non-life branch)	Insurance Institute of India	Pre-requisite= Associateship of Insurance Institute of India, or ACII (UK); Minimum 10 years standing in the profession; Passed the Fellowship Examinations. Source: https://www.insuranceinstituteofindia.com/web/guest/admission-of-fellows-and-associates#
Specialized		
Chartered Property Casualty Underwriter (CPCU)	The Institutes, U.S.	Complete 4 foundation courses, 3 courses in personal/ commercial lines concentration, and one elective; Complete an ethics course (50-question exam); Complete the CPCU Code of Professional Conduct; Minimum of 17.5 hours a week in acceptable insurance activities for any 24 months during the 5-year period immediately preceding the conferment of the designation. Program may be completed in 2-3 years. Source: https://www.theinstitutes.org/program/chartered-property-casualty-underwriter-cpcu
Chartered Life Underwriter (CLU).		Complete 5 required courses and 3 electives on-line learning; Complete ethics standards; Minimum 3 years of full-time business experience in insurance or financial services (an undergraduate or graduate degree from an accredited educational institution qualifies as one year of business experience).
Chartered Financial Consultant (ChFC) .	The American College of Financial Services, U.S.	Complete 9 required courses on-line learning; Complete ethics standards; Minimum 3 years of full-time business experience in insurance or financial services (an undergraduate or graduate degree from an accredited educational institution qualifies as one year of business experience). Source: https://www.theamericancollege.edu/designations-degrees/CLU

Designation Title	Chartering Entity	Entry Requirements
Chartered Financial Consultant/ Singapore (ChFC/S).[#]	Singapore College of Insurance	Pre-requisite= courses on regulations for financial advisory services, collective investment schemes, life insurance, and health insurance; A 9-course self-study program (except for 2 courses in which candidates must attend tutorials before attempting the examination); Minimum 3 years of full-time business experience (an undergraduate or graduate degree from an accredited educational institution qualifies as one year of business experience); Minimum of 30 hours of CPD credits every two years.
Chartered Life Underwriter/ Singapore (CLU®/S).[#]		Pre-requisite= ChFC/S designation, or a Diploma in Life Insurance; A 8-course self-study program; Minimum 3 years of full-time business experience (an undergraduate or graduate degree from an accredited educational institution qualifies as one year of business experience); Minimum of 30 hours of CPD credits every two years. ChFC/S holders may earn the CLU/S designation by completing the 4 additional modules. Source: https://www.scicollege.org.sg/
Chartered Institute of Loss Adjusters Fellow	The Chartered Institute of Loss Adjusters, U.K.	Pre-requisite=Associate in Chartered Institute of Loss Adjusters (pre-req. courses= CILA Advanced Diploma qualification and pass the Accreditation for Chartered Status through written exam or panel interview/ summary of experience/ critical analysis of a claim); Minimum 5 years of CPD in a role where their predominant activity is the investigation, management, quantification, validation and resolution of Property, Casualty or any other losses. Source: www.cila.co.uk/cila/getting-qualified/fellow
Chartered Loss Adjuster (Fellow)	Australasian Institute of Chartered Loss Adjusters	Pre-requisite =Associate member of the Institute for a minimum period of 5 years (pre-req. courses= completed 8 modules with at least 6 by examinations from the ANZIIF Diploma of Loss Adjusting course); Have a university degree level course as approved by the Board, or ANZIIF fellowship; Minimum 10 years of work experience as a practicing loss adjuster; Comply with the requirements of CPD as prescribed by the Board. Source: www.aicla.org/join/qualifications.html

Notes: Pre-req. is pre-requisite. CPD is Continuing Professional Development.

5. CONCLUSION

Based on an extensive review of the current state of professional education within the risk and insurance industry, it is our position that an amalgamation of sorts for the various chartering entities around the world would be helpful in reducing heterogeneity and lead to greater harmonization across RMI professional qualifications. The benefits of greater cooperation among RMI professional bodies outweigh any potential negatives, by sharing technical resources and taking advantage of increased economies of scale.

There are existing examples that can serve as a template for intercontinental cooperation. The National Association of Insurance Commissioners created an International Insurance Relations Committee that works with insurance regulators in other countries to share information and provide expertise and training in the area of insurance regulation. This Committee is especially interested in helping regulators in emerging insurance markets, where there is more of a need for their services. The International Accounting Standards Board (IASB), created the first truly global International Financial Reporting Standards (IFRS) Standard for insurance contracts, which will help investors and other stakeholders better understand the risk exposure, profitability and financial position of insurance companies. The IFRS Foundation is a nonprofit international organization that develops high-quality accounting standards.

In addition, RMI professional bodies should be encouraged to define the specific competencies and underpinning knowledge required of their practitioners at the initial education stage. The insurance syllabus framework should be regularly reviewed, and where necessary, enhanced and updated to reflect the current and future needs of the profession. Other positive consequences from these coordinating efforts is a more efficient and effective means of creating specializations in an increasingly complex industry, and a reduction in duplicity of efforts.

The industry has increasing need to maximize Big Data in order to set fairer, more efficient premiums, reducing fraud, improving customer service, and engage in more efficient marketing strategies. In recognition of this industry change, The Institutes recently created a new designation, the Associate in Data Analytics (AIDA). Another example is the trend toward more value-added services provided by insurance agencies such as loss control and risk management. In response, the Institutes created the new Professional Risk Consultant Designation (PRC), designed for professionals with up to three years of experience in the industry. The National Alliance provides webinars for such hot topics as "The Internet of Things," "Cyber Liability – What Every Agent Should Know," and "Uncertainty: Underwriting Unmanned Aerial Vehicles." These are just a few specific areas where flexibility and relevance play a key role in the continued quest to train talented insurance professionals.

In conclusion, we strongly recommend that RMI professional accrediting or certifying bodies be encouraged and motivated to develop the strategies described in sections 4 and 5, to ensure their continuing relevance and contribution to markets and the public interest. When one considers the multi-faceted nature of the insurance and risk management industry, the sheer scope for personal and professional growth is truly vast. Regardless of the economic outlook, the insurance sector will always be an essential component of vibrant financial markets. The markets being served are continuously changing, and while this presents challenges, it also offers opportunities.

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Financial Planning in Action with An Excel-Based Life Insurance Project

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ABSTRACT

This paper details a project used in an undergraduate-level introductory life insurance course. The project uses Excel to calculate the amount of additional life insurance needed to meet a hypothetical family's financial goals. It further utilizes Excel's Data Table to run scenario analysis and Monte Carlo simulation, allowing students to see financial planning in action and gain a deeper appreciation of the impact of changing assumptions on the calculation results.

INTRODUCTION

Educators in the risk management and insurance field have often used projects, special assignments, and case studies to engage students in learning and help them better comprehend the course materials. For instance, Baranoff (2001) developed a "risk balls" game in an introductory insurance course to demonstrate the relationship between risk and insurance. Each risk ball represents a different type of risk, and students experience feelings of anxiety about risk while holding onto the ball and later relief when they pass it to insurers. The game helps students understand the concepts of risk, risk transfer, and risk reduction.

Pope and Ma (2004) introduced a student-centered grade insurance project to their insurance classes. Students were asked to design insurance policies that provide protection against potential loss of points on tests, quizzes, and other grading components. The project enabled students to gain a deeper understanding of the complexity of insurance transactions by acting as both insurers and consumers.

Lei (2011) designed an optimization project to a graduate-level risk management course, in which students learned how to use simulation-based software to minimize the cost of risk for a hypothetical company that faces the risk of their workers getting injured on the job.

Epermanis and Wood (2013) developed a case study to guide students through four major categories of risks (strategic, operational, financial and hazard) faced by a company that owns and operates amusement parks. The project helped students deepen understandings of concepts such as risk identification, risk control, and risk transfer.

While these studies provide great insight into effective teaching, they usually focus on principles of risk management and insurance courses. There are very few pedagogical studies specifically focused on life insurance. Ferris (2012) used a case study of an Australian life insurer, which made a series of very expensive mistakes, to demonstrate the consequence of underestimating the potential cost of operational risks. Weston and Willey (2016) asked students to analyze a case in which some life insurers faced litigation for their use of retained asset accounts for insurance policy payouts. Students were assigned to examine insurance laws and regulations, insurance operations, decision making under uncertainty, ethics, reputation, and/or customer relations.

This paper adds to the pedagogical research of teaching life insurance by demonstrating a financial planning project used in an introductory life insurance course. The project requires students to evaluate how changing economic assumptions affect the amount of additional life insurance needed to fulfill a hypothetical family's financial goals. With the use of Excel, students learn how to conduct dynamic analyses and see financial planning in action.

The remainder of the article proceeds as follows: a description of the project is provided, followed by a detailed demonstration of how to execute the project in Excel. The paper ends with discussions and a brief conclusion.

DESCRIPTION OF THE PROJECT

The concept of personal financial planning is fairly straightforward. People set a financial goal (what they desire) and examine their current resources (what they have) to see how much is the shortfall. They will then decide what tools to use to meet the shortfall.

Life insurance has long been considered an important part of personal financial planning. Black and Skipper (2000), which is the textbook used in the author's life insurance course, designed a hypothetical case to demonstrate how to use life insurance to close the gap between financial objectives and resources.[1] The case involved a dynamic analysis of additional life insurance needed by a married couple, whose financial information is shown in Table 1.[2]

Table 1: Steven and Gwen's Financial Objectives and Resources		
What They Desire		
	If Steven Dies First	If Gwen Dies First
Desired Annual After-tax Income Objectives on Death		
with both children at home or in college	45,000	45,000
with one child at home or in college	43,000	43,000
with no child at home or in college	40,000	40,000
Cash Needs on Death Based on Objectives		
Funeral and probate expenses	8,000	8,000
Mortgage loan balance	110,000	110,000
Auto loan and credit card balances	13,000	13,000
Establish emergency fund	20,000	20,000
Establish educational fund		
with both children at home	50,000	50,000
with one child in college and another child at home	25,000	25,000
with no child at home	0	0
Money Needed on Death to Purchase Annuity at Age 70	70,000	69,500
What They Have		
Liquid Assets Available on Death		
Existing life insurance policies	75,000	50,000
Pension plan death benefits	10,000	0
Savings account balance	20,000	20,000
Checking account balance	2,000	2,000
Social Security Survivor Benefits		
both children under 18 or, if in college, under 22	13,050	9,360
one child under 18 or, if in college, under 22	6,525	4,680
at survivor's age 65	8,700	6,420
Survivor's After-tax Income	25,000	45,000

The couple, Steven and Gwen, are both 35 and have two children, ages 2 and 7. They are assumed to have the following desires and resources:

What They Desire:
- Maintain certain living standards (meet annual income objectives): the couple's overall objective is for each to be able to maintain his or her living standard if the other dies first. If Steven dies first, the objective requires an estimated annual income of about $45,000 per year after taxes while both

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[1] See pages 362-370 in Black and Skipper (2000) for detailed discussion of the case.
[2] Table 1 and the subsequent discussion of it are based on Table 14-4 and other relevant assumptions included in Black and Skipper (2000). The author reorganized the information by financial goals and resources for easier understanding of the hypothetical family's financial situation.

children are at home or in college, $43,000 with one child at home/in college, and $40,000 with no child at home/in college.

- Meet cash needs: the surviving spouse needs to pay funeral and probate expenses, mortgage, and auto and credit card loan. She or he also needs to establish emergency and educational funds. If Steven dies first, Gwen wishes to have $50,000 in educational fund if both children are under 18, $25,000 if one child is still under 18, and $0 if both children are over 18.
- Money needed on death to purchase annuity at age 70: the project follows Black and Skipper (2000) and assumes that Gwen will purchase an annuity at age 70. Such assumption will make the financial planning exercise more manageable. As the exact time of Steven's death is unknown, it will be impossible to know when the planning should stop. By assuming Gwen will purchase an annuity at age 70, we can stop the planning process in year 35, when both she and Steven would have turned 69.

What They Have:
- Liquid assets available on death: Table 1 shows that Steven has some existing life insurance policies, a pension that pays death benefit, a savings account, and a checking account, all of which will become resources available to Gwen when Steven dies.
- Social security benefits: Gwen will receive social security survivor benefits after her husband dies. The amounts vary depending on her children's ages.
- Survivor's income: Gwen will still work when Steven dies, so she will draw regular income from her job. Following Black and Skipper (2000), the project assumes that Gwen makes $37,000 ($25,000 after taxes) and Steven makes $63,000 ($45,000 after taxes).

As financial planning spans many years, assumptions about economic factors are also needed. Below are the assumptions used in the project:
- the annual income objective, the social security benefits, the auto and credit card loan, the emergency fund, and the funeral and probate expenses will change at an annual inflation rate of i
- Gwen's income will change by j
- after-tax discount rate will be d
- the pension plan death benefits will change by p
- savings and investment balances will change by s
- checking account balances will change by c
- annual educational fund balances will change by e.

The couple decides to purchase additional life insurance to fill the gap in their financial planning. The amount needed is calculated as follows:

Additional life insurance needed
= What they desire − What they have
= {meet annual income objectives + meet cash needs on death based on objectives + save
   money to purchase annuity at age 70} − {liquid assets available on death + social security
   benefits + survivor's income}
= (meet annual income objectives − survivor's income − social security benefits)
  − liquid assets available on death + meet cash needs + save money to purchase annuity at age 70
= Income shortage − liquid assets available on death + meet cash needs + save money to purchase
  annuity at age 70,

where
Income shortage = meet annual income objectives − survivor's income − social security benefits.

Students are reminded that two broad categories of assumptions affect the amount of additional life insurance needed. The first category concerns the hypothetical couple's own situation, such as when they start

financial planning, their current financial resources, and their financial goals. The second category relates to the general economic conditions, such as inflation rate and other external factors that are usually out of control of the couple.

The project (See Appendix for details) developed in the author's life insurance course builds on the Black and Skipper case. It uses the same assumptions about the hypothetical family's financial situation but allows economic assumptions to change.

To help students see financial planning in action, the project progresses in three steps. Part 1 of the project assigns each student a unique set of (i, j, d, p, s, c, e) and asks them to replicate the dynamic analysis of additional life insurance needed. Part 2 of the project requires students to do a scenario analysis and evaluate the impact of multiple sets of (i, j, d, p, s, c, e) on financial planning at the same time. Part 3 of the project allows the economic factors (i, j, d, p, s, c, e) to be random variables that follow certain probability distributions and asks students to run a Monte Carlo simulation.

All three parts of the project must be set up in Excel. Detailed discussion of the project setup follows.

PART 1: DYNAMIC ANALYSIS USING GIVEN SET OF ECONOMIC ASSUMPTIONS

Part 1 is an Excel version of the Black and Skipper textbook case, with each student given a different set of (i, j, d, p, s, c, e).[3] This part serves as a foundation for the other two parts of the project. The demonstration below uses (i, j, d, p, s, c, e) = (0.02, 0.03, 0.07, 0.08, 0.12, 0.001, 0.052) to show how to conduct a dynamic analysis of additional life insurance needed, allowing varied ages at death.[4]

Three tables (or worksheets in Excel) are set up to calculate income shortage, liquid assets available on death, and additional life insurance needed, respectively.

Calculation of Incomes Shortage

Table 2 has 10 columns.[5] The first column is year in which Steven dies. Note that the planning process stops in year 35, when Gwen turns 69. This is so because we assume that once she turns 70, she will purchase an annuity to take care of her remaining years. Therefore, there is no need to worry about years later than 35.

The next three columns show Gwen and the two children's ages. The two columns that follow show the family's annual income objective without and with consideration for inflation, respectively. The seventh column shows the social security benefits, followed by the eighth column showing Gwen's income. The last two columns are used to calculate income shortage (nominal and present values).

Recall that income shortage = (meet annual income objective − survivor's income − social security benefits). All three terms used in the calculation must take account of inflation factors and pay raise rates.

Students are reminded that the base numbers used in the calculation of inflated income objective change with the two children's ages. When Gwen is between age 35 and 49, her two children are both under 22. Based on the assumptions shown in Table 1, the annual income objective is $45,000. But once the older child turns 22 and finishes college, but before the younger child turns 22, the desired income reduces to $43,000. When the younger child also turns 22 and finishes college, the objective is further reduced to $40,000. This makes sense because Gwen no longer has that much financial burden raising her children.

Given the inflation factor, however, the same dollar is not worth the same in the future. In order to maintain the same living standard, $45,900 (= $45000*(1+0.02)^1$) is needed when Gwen is 36, and $59,377 (= $45000*(1+0.02)^{14}$) is needed when she is 49. When Gwen turns 50, the amount needed is $57,872, which is $43000*(1+0.02)^{15}$. Similarly, when Gwen turns 55, the amount needed is $59,438 (= $40000*(1+0.02)^{20}$).

Table 2: Calculation of Income Shortage

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[3] Black and Skipper (2000) assumes (i, j, d, p, s, c, e) = (0.04, 0.05, 0.07, 0.15, 0.1, 0.04, 0.07).
[4] We assume the husband dies first.
[5] This table is equivalent to Table 14-5 in Black and Skipper (2000), though two columns are added to indicate the two children's ages to more clearly show how the family's objectives evolve as the kids get older.

Steven Death in Year	Philip's age	Debbie's age	Gwen's age	annual income objective	inflation rate i 0.02		pay raise rate j 0.03	discount rate d 0.07	
					annual income objective @ i	social security benefits @ i	Gwen's income @ j	income shortage	PV of inflated income shortage @d
1	7	2	35	45,000	45000	13050	25000	6950	134653
2	8	3	36	45,000	45900	13311	25750	6839	136642
3	9	4	37	45,000	46818	13577	26523	6718	138889
4	10	5	38	45,000	47754	13849	27318	6587	141423
5	11	6	39	45,000	48709	14126	28138	6446	144274
6	12	7	40	45,000	49684	14408	28982	6294	147476
7	13	8	41	45,000	50677	14696	29851	6130	151065
8	14	9	42	45,000	51691	14990	30747	5954	155081
9	15	10	43	45,000	52725	15290	31669	5765	159566
10	16	11	44	45,000	53779	15596	32619	5564	164567
11	17	12	45	45,000	54855	15908	33598	5349	170134
12	18	13	46	45,000	55952	16226	34606	5120	176319
13	19	14	47	45,000	57071	16551	35644	4876	183183
14	20	15	48	45,000	58212	16882	36713	4617	190789
15	21	16	49	45,000	59377	17219	37815	4343	199203
16	22	17	50	43,000	57872	8782	38949	10141	208501
17	23	18	51	43,000	59030	8957	40118	9955	212245
18	24	19	52	43,000	60210	9137	41321	9753	216450
19	25	20	53	43,000	61415	9319	42561	9534	221167
20	26	21	54	43,000	62643	9506	43838	9300	226446
21	27	22	55	40,000	59438	0	45153	14285	232347
22	28	23	56	40,000	60627	0	46507	14119	233326
23	29	24	57	40,000	61839	0	47903	13937	234552
24	30	25	58	40,000	63076	0	49340	13736	236058
25	31	26	59	40,000	64337	0	50820	13518	237884
26	32	27	60	40,000	65624	0	52344	13280	240072
27	33	28	61	40,000	66937	0	53915	13022	242668
28	34	29	62	40,000	68275	0	55532	12743	245721
29	35	30	63	40,000	69641	0	57198	12443	249286
30	36	31	64	40,000	71034	0	58914	12120	253423
31	37	32	65	40,000	72454	15759	0	56696	258194
32	38	33	66	40,000	73904	16074	0	57830	215603
33	39	34	67	40,000	75382	16396	0	58986	168818
34	40	35	68	40,000	76889	16723	0	60166	117520
35	41	36	69	40,000	78427	17058	0	61369	61369

With the social security benefits column, students are reminded of the same thing: as the base numbers change, the inflated amounts should also change. When Gwen is 35, her two children are still under 22, so she receives $13,050. That amount is adjusted by inflation rate. But when she turns 50, her older child reaches 22, the base social security benefit is reduced to $6,525, so the inflated amount is $8,782 (=$6,525*(1+0.02)^{15}). The social security benefits stop when Gwen is between 55 and 64. This is so because her children are no longer dependents and she hasn't reached retirement age yet. Once she turns 65, she begins to collect her own social security benefits. The amount is $15,759 (=$8,700*(1+0.02)^{30}).

Gwen's income is $25,000 at her current age of 35. Assuming a pay raise of 3% each year, her next-year income is $25,750 (=25000*(1+0.03)^1). We continue similar future-value calculations until she is 64. Once she turns 65, she retires and no longer draws wage income.

If Steven dies the first year at his current age of 35, Gwen needs to look into 35 years of income shortage until she turns 70 when an annuity would take care of her financial needs. The first year's income shortage is $6,950 (= annual income objective at i – social security benefits at i – Gwen's income at j = 45000 – 13050 – 25000). The remaining years' income shortages are calculated in a similar manner.

Since the planning takes place in year 1, when Gwen is 35, she must consider the present value of these income shortages. Therefore, if Steven dies in year 1, the present value (PV) of the 35 income shortages is calculated as follows:

$6950/(1+0.07)^0 + 6839/(1+0.07)^1 +...+61369/(1+0.07)^{34} = \$134,653$.

If Steven dies in year 2, Gwen only needs to worry about the next 34 years of income shortage. The present value of income shortage in year 2 is:

$6839/(1+0.07)^0 + 6718/(1+0.07)^1 +...+61369/(1+0.07)^{33} = \$136,642$.

If Steven dies in year 35, Gwen only needs to worry about that last year's income shortage. The present value of that one income shortage in year 35 is $61,369 (=61369/(1+0.07)^0)$.

The process described above involves calculations of both future values and present values.[6] Students are reminded that Excel has various built-in functions that may be used for such calculations. For instance, the last column of Table 2 can be easily calculated using the NPV function.[7]

Calculation of Liquid Assets Available on Death

Table 3 proceeds to calculate the amount of liquid assets available on death.[8] It has six columns: the first one is year in which Steven dies, and the next four columns show how much money is available on death from pension plan, savings and checking accounts, as well as existing life insurance policies. The last column summarizes the total amount of one-time cash flow available on death.

The death benefit from Steven's pension plan is $10,000 based on Table 1. That amount will increase to $10,800 (=10000*(1+0.08)^1)$ in year 2, and $136,901 (=10000*(1+0.08)^{34})$ in year 35.

The calculations for savings and checking accounts are similar. Each account has $20,000 and $2,000 to begin with, respectively, and they increase at their respective rates. Steven has a total of $75,000 from his existing insurance policies, whose face amounts remain constant over time.

If Steven dies in year 1, then the total amount of liquid assets available is $107,000 (= 10000 + 20000 + 2000 + 75000). The total liquid assets available in later years are calculated similarly.

Table 3: Calculation of Liquid Assets Available on Death					
Steven Death in Year	pension death benefits growth rate p	savings account growth rate s	checking account growth rate c	existing life insurance policy proceeds	liquid assets available on death
	0.080	0.120	0.001		
1	10000	20000	2000	75000	107000
2	10800	22400	2002	75000	110202
3	11664	25088	2004	75000	113756
4	12597	28099	2006	75000	117702
5	13605	31470	2008	75000	122083

[6] The author usually spends two 75-minute-long lectures on the time value of money in the life insurance course. A smaller-scale assignment is given for students to practice calculating present/future value in Excel. The discussion of financial planning comes after the lectures on the time value of money.

[7] Students are reminded that the use of NPV in this financial planning project is for calculating discounted cash flows and different from the net present value method used as a capital budgeting decision tool.

[8] This table is equivalent to Table 14-7 in Black and Skipper (2000).

6	14693	35247	2010	75000	126950
7	15869	39476	2012	75000	132357
8	17138	44214	2014	75000	138366
9	18509	49519	2016	75000	145045
10	19990	55462	2018	75000	152470
11	21589	62117	2020	75000	160726
12	23316	69571	2022	75000	169910
13	25182	77920	2024	75000	180125
14	27196	87270	2026	75000	191492
15	29372	97742	2028	75000	204142
16	31722	109471	2030	75000	218223
17	34259	122608	2032	75000	233900
18	37000	137321	2034	75000	251355
19	39960	153799	2036	75000	270796
20	43157	172255	2038	75000	292451
21	46610	192926	2040	75000	316576
22	50338	216077	2042	75000	343458
23	54365	242006	2044	75000	373416
24	58715	271047	2047	75000	406808
25	63412	303573	2049	75000	444033
26	68485	340001	2051	75000	485537
27	73964	380801	2053	75000	531818
28	79881	426498	2055	75000	583433
29	86271	477677	2057	75000	641005
30	93173	534999	2059	75000	705230
31	100627	599198	2061	75000	776886
32	108677	671102	2063	75000	856842
33	117371	751635	2065	75000	946070
34	126760	841831	2067	75000	1045658
35	136901	942850	2069	75000	1156821

Calculation of Additional Life Insurance Needed

Table 4 has a total of 11 columns.[9] The second column shows that the mortgage balance goes down over time. Instructors can make their own assumptions of how quickly the hypothetical family pays off its mortgage.

The auto and credit card loan column is assumed to increase at the annual inflation rate. It goes up to $13,260 (=13000*1.02^1) in year 2 and $25,489 (=13000*1.02^{34}) in year 35. The emergency fund and the funeral and probate expenses are calculated in a similar manner.

The educational fund column requires extra attention. The family desires $50,000 when both children are under 18, but only half of that amount when the older child turns 18. When the younger child also turns 18, the fund stops. Table 4 shows that the educational fund goes up to $83,009 (=50000*1.052^{10}) in year 11, when the older child is 17. The nominal fund reduces to $25,000 the next year, so that year's actual fund is $43,663 (=25000*1.052^{11}). When the younger child is 17, the fund grows to $53,478 (=25000*1.052^{15}). The fund stops the following year.

Table 4: Calculation of Additional Life Insurance Needed								
Steven Death	mortgage	inflation rate i 0.02		Education fund growth rate e	Cash Needed in Year of	annual total	PV of inflated	Liquid assets	additional life insurance

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[9] Table 4 is equivalent to Table 14-8 in Black and Skipper (2000).

in Year	mortgage loan @ i	auto and credit card loan @ i	emergency fund @i	funeral and probate expenses @i	0.052	Death to Purchase Annuity at Age 70	cash needs	income shortage	available on death	needed in year of death
1	110000	13000	20000	8000	50000	70,000	271000	134653	107000	298653
2	109366	13260	20400	8160	52600	74900	278686	136642	110202	305126
3	108651	13525	20808	8323	55335	80143	286786	138889	113756	311919
4	107846	13796	21224	8490	58213	85753	295321	141423	117702	319042
5	106939	14072	21649	8659	61240	91756	304314	144274	122083	326505
6	105916	14353	22082	8833	64424	98179	313786	147476	126950	334312
7	104764	14640	22523	9009	67774	105051	323762	151065	132357	342470
8	103466	14933	22974	9189	71298	112405	334266	155081	138366	350981
9	102003	15232	23433	9373	75006	120273	345320	159566	145045	359842
10	100355	15536	23902	9561	78906	128692	356952	164567	152470	369050
11	98498	15847	24380	9752	83009	137701	369187	170134	160726	378594
12	96405	16164	24867	9947	43663	147340	338386	176319	169910	344796
13	94047	16487	25365	10146	45933	157654	349632	183183	180125	352690
14	91389	16817	25872	10349	48322	168689	361438	190789	191492	360734
15	88395	17153	26390	10556	50835	180498	373826	199203	204142	368887
16	85020	17496	26917	10767	53478	193132	386811	208501	218223	377088
17	81218	17846	27456	10982	0	206652	344154	212245	233900	322499
18	76934	18203	28005	11202	0	221117	355461	216450	251355	320556
19	72106	18567	28565	11426	0	236595	367259	221167	270796	317630
20	66666	18939	29136	11654	0	253157	379552	226446	292451	313548
21	60536	19317	29719	11888	0	270878	392338	232347	316576	308109
22	53629	19704	30313	12125	0	289840	405611	233326	343458	295480
23	45845	20098	30920	12368	0	310128	419358	234552	373416	280494
24	37075	20500	31538	12615	0	331837	433565	236058	406808	262815
25	27192	20910	32169	12867	0	355066	448204	237884	444033	242055
26	16056	21328	32812	13125	0	379921	463242	240072	485537	217777
27	3507	21754	33468	13387	0	406515	478632	242668	531818	189482
28	0	22190	34138	13655	0	434971	504953	245721	583433	167242
29	0	22633	34820	13928	0	465419	536801	249286	641005	145082
30	0	23086	35517	14207	0	497999	570809	253423	705230	119001
31	0	23548	36227	14491	0	532859	607125	258194	776886	88433
32	0	24019	36952	14781	0	570159	645910	215603	856842	4672
33	0	24499	37691	15076	0	610070	687336	168818	946070	-89916
34	0	24989	38445	15378	0	652775	731586	117520	1045658	-196552
35	0	25489	39214	15685	0	698469	778857	61369	1156821	-316595

The next column "Cash Needed in Year of Death to Purchase Annuity at Age 70" is given. For instance, $70,000 is needed today in order to purchase an annuity at age 70.[10]

The annual total cash needs is the sum of annual mortgage loan balance, annual balance on auto and credit card loans, annual emergency fund, annual funeral and probate expenses, annual educational fund balances, and cash needed in year of death to purchase annuity at age 70. For instance, year 1's amount $271,000 = 110000 + 13000 + 20000 + 8000 + 50000 + 70,000.

The additional life insurance needed is annual cash needs plus present value in year of death of inflated income shortage minus liquid assets available on death, where the PV of income shortage column is the same as the last column in Table 2, and the liquid assets available on death is the same as the last column in Table 3. For instance, the additional life insurance needed if Steven dies in year 1 is $298,653 (= 271000 + 134653 − 107000). Note that in the last three years, the amounts are negative, which means Gwen may reduce the life insurance amount to still meet the same financial goal.[11]

PART 2: SCENARIO ANALYSIS

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[10] This project uses the exact assumptions about funds needed to purchase the annuity as Black and Skipper (2000).

[11] It is not always that one gets negative numbers only in the last few years. The entire column of additional life insurance needed may be positive or negative numbers, depending on the hypothetical couple's beginning resources and financial goals, as well as economic assumptions.

Part 2 extends Part 1 and asks students to evaluate multiple sets of (i, j, d, p, s, c, e) at the same time. This part is intended to help students see what happens to the amount of additional life insurance needed if any of the assumptions of (i, j, d, p, s, c, e) changes. Rather than re-do Part 1 multiple times with different sets of (i, j, d, p, s, c, e), this part of the project asks students to use Excel's Data Table to conduct a scenario analysis.

A data table is one of "What-if analysis" tools available in Excel. It is a range that evaluates the impact of changing input values on output results in a single formula.

This project has seven inputs, namely, the economic assumptions of (i, j, d, p, s, c, e), and 35 outputs that correspond to additional life insurance needed if Steven dies at different time points. In other words, the outputs are the last column in Table 2.

As multiple inputs are involved and they may all change at the same time, different scenarios are set up to represent possible combinations of the input changes.[12] For illustration purpose, only five scenarios are considered. Table 5 shows the detailed setup of the scenario analysis.

The top panel of Table 5 is a scenario table, where detailed information on each scenario of (i, j, d, p, s, c, e) is stored. Each scenario is represented by a numerical number and a text description. Note that scenario number 1 (or "Student 1") corresponds to the assumptions used to calculate Tables 2 through 4 in earlier sections. "Student 3" is an extreme scenario, assuming 100% inflation rate and educational fund growth rate[13] but zero discount rate and growth rates in pay, savings, pension benefits, and checking accounts. "Student 4" is the opposite of "Student 3," assuming no inflation rate or educational fund growth rate, but 100% discount rate and growth rates in pay, savings, pension benefits, and checking accounts.[14]

The bottom panel of Table 5 has seven columns. The first column provides descriptions of the seven inputs and the thirty-five outputs (additional life insurance needed when death occurs in different years). Note that rows 29-55 are hidden in order to save space and present a whole picture of the setup table.

The second column contains formulas to be used in the generation of data table. Cell B15 stores information of a particular scenario number, which may take any value from 1, 2, 3, 4, and 5.

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[12] There are different definitions of scenario analysis and similar terms such as sensitivity analysis and what-if analysis. This project does not intend to provide a vigorous definition. Instead, it uses the term "scenario analysis" loosely to mean what happens to output variables if input variables are changed. The word "scenario" is used also because different scenarios must be set up to represent different combinations of the multiple inputs.

[13] We assume that educational fund tracks average tuition increase rate. So a high tuition increase rate means the family needs to save more for college.

[14] The two extreme cases are provided for illustration purpose only.

	A	B	C	D	E	F	G	H	I	J	K
1		Table 5: Scenario Analysis - Setup									
2											
3	Scenario No.	1	2	3	4	5					
4	Description	Student 1	Student 2	Student 3	Student 4	Student 5					
5	i	0.02	0.04	1	0	0.06					
6	j	0.03	0.05	0	1	0.05					
7	d	0.07	0.07	0	1	0.07					
8	p	0.08	0.15	0	1	0.15					
9	s	0.12	0.1	0	1	0.1					
10	c	0.001	0.04	0	1	0.04					
11	e	0.052	0.07	1	0	0.07					
12											
13											
14											
15	Scenario	1	1	2	3	4	5				
16	Description	Student 1						cell B16= HLOOKUP($B$15,$B$3:$F$11,2)			
17	i	0.02						cell B17= HLOOKUP($B$15,$B$3:$F$11,3)			
18	j	0.03						cell B18= HLOOKUP($B$15,$B$3:$F$11,4)			
19	d	0.07						cell B19= HLOOKUP($B$15,$B$3:$F$11,5)			
20	p	0.08						cell B20= HLOOKUP($B$15,$B$3:$F$11,6)			
21	s	0.12						cell B21= HLOOKUP($B$15,$B$3:$F$11,7)			
22	c	0.001						cell B22= HLOOKUP($B$15,$B$3:$F$11,8)			
23	e	0.052						cell B23= HLOOKUP($B$15,$B$3:$F$11,9)			
24	Steven Death in Year 1	298653						cells B24-B58= last column in Table 4			
25	Steven Death in Year 2	305126									
26	Steven Death in Year 3	311919									
27	Steven Death in Year 4	319042									
28	Steven Death in Year 5	326505									
56	Steven Death in Year 33	-89916									
57	Steven Death in Year 34	-196552									
58	Steven Death in Year 35	-316595									

Cells B16-B23 use the same Excel function HLOOKUP, which has the syntax of (lookup_value, table_array, row_index_num). Lookup_value is the value to be found in the first row of the table array, which is a table of information in which data is looked up. Row_index_num is the row number in table_array from which the matching value will be returned.

The table array used to calculate cells B16-B23 is the selected area (B3: F11) in the top panel of Table 5. The first row of the array indicates the scenario number, the second row provides corresponding text description, the third row shows corresponding inflation rate (i), and the ninth row has information on the educational fund growth rate (e).

When Cell B16 uses the formula HLOOKUP($B$15,$B$3:$F$11,2), Excel will first find the value of B15 and then look up the table array (B3: F11) to find corresponding data in row 2. In Table 5, we input the value of 1 in cell B15, so Excel will first look horizontally in the first row of table array (B3: F11) to find 1. After it locates the value of 1, it will then go down vertically to find the corresponding data in row 2, which is "Student 1."

Similarly, cell B23's formula HLOOKUP($B$15,$B$3:$F$11,9) tells Excel to find row 9 data (0.052) in table array (B3: F11) corresponding to the value of 1 in cell B15.

With above setup, we can change the scenario table any way we want, and the bottom panel of Table 5 will change accordingly in the what-if analysis.

Cells B24-58 are set equal to the last column of Table 4.

Tables 2 through 4 must be linked to Table 5. For instance, instead of inputting a fixed number of 0.02 for i and 0.052 for e in Table 4, we need to set them equal to cells B17 and B23 in Table 5, respectively. This way, any time (i, j, d, p, s, c, e) is changed in Table 5, Tables 2-4 will automatically re-calculate and return updated amounts of additional life insurance needed.

Before we compare the five scenarios all at once, Table 6 shows what happens if the value of 2 is input in cell B15.[15] We note that the Excel HLOOKUP function automatically finds corresponding scenario number and

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[15] The "Student 2" scenario contains the set of economic assumptions used by Black and Skipper (2000). Students are reminded how Excel's data table generates the same results on additional life insurance as shown in the textbook.

input values. Tables 2-4 automatically re-calculate and return updated information on additional life insurance needed in cells B24-B58.

	A	B	C	D	E	F	G
1	Table 6: Scenario Analysis - Change a Scenario Number						
2							
3	Scenario No.	1	2	3	4	5	
4	Description	Student 1	Student 2	Student 3	Student 4	Student 5	
5	i	0.02	0.04	1	0	0.06	
6	j	0.03	0.05	0	1	0.05	
7	d	0.07	0.07	0	1	0.07	
8	p	0.08	0.15	0	1	0.15	
9	s	0.12	0.1	0	1	0.1	
10	c	0.001	0.04	0	1	0.04	
11	e	0.052	0.07	1	0	0.07	
12							
13							
14							
15	Scenario	2	1	2	3	4	5
16	Description	Student 2					
17	i	0.04					
18	j	0.05					
19	d	0.07					
20	p	0.15					
21	s	0.1					
22	c	0.04					
23	e	0.07					
24	Steven Death in Year 1	357144					
25	Steven Death in Year 2	369054					
26	Steven Death in Year 3	381504					
27	Steven Death in Year 4	394514					
28	Steven Death in Year 5	408104					
56	Steven Death in Year 33	-305785					
57	Steven Death in Year 34	-526253					
58	Steven Death in Year 35	-778792					

Table 7 shows how to evaluate all five scenarios at the same time. Select the outlined area (table array B15:G58) in the bottom panel of Table 6. Go to "Data" Tab in Excel and click "What-if Analysis." Select "data table" and a window will pop up (see the small Data Table on the top right in Table 7). Leave "Column input cell" empty and input "$B$15" in "Row input cell."[16] Click OK and cells C16:G58 will be automatically populated.

What "Data Table" does is to simultaneously calculate additional life insurance needed under all five scenarios at the same time. Note how drastically different answers we have given different economic assumptions, especially under extreme scenarios "Student 3" and "Student 4."

Additional analysis may be conducted by changing the scenario table. For instance, we may allow only one assumption (say, the inflation rate) to change but keep other economic assumptions constant. We can then observe how additional life insurance varies with inflation rates only.

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[16] As can be seen here, data table only allows one input cell (either in row or column), but we have seven inputs that may change simultaneously. In order to use data table, we set up scenarios to represent different combinations of the inputs. In other words, the seven inputs are now converted into one single input: scenarios. Data table can handle data arranged in rows or columns. Since the scenarios are shown in the first row of the scenario table, we fill in the "row input cell" in the pop-up window.

Table 7: Scenario Analysis - Data Table Run Results

Scenario No.	1	2	3	4	5
Description	Student 1	Student 2	Student 3	Student 4	Student 5
i	0.02	0.04	1	0	0.06
j	0.03	0.05	0	1	0.05
d	0.07	0.07	0	1	0.07
p	0.08	0.15	0	1	0.15
s	0.12	0.1	0	1	0.1
c	0.001	0.04	0	1	0.04
e	0.052	0.07	1	0	0.07

Data Table — Row input cell: $B$15 — Column input cell: [blank] — OK / Cancel

Scenario	2	1	2	3	4	5
Description	Student 2	Student 1	Student 2	Student 3	Student 4	Student 5
i	0.04	0.02	0.04	1	0	0.06
j	0.05	0.03	0.05	0	1	0.05
d	0.07	0.07	0.07	0	1	0.07
p	0.15	0.08	0.15	0	1	0.15
s	0.1	0.12	0.1	0	1	0.1
c	0.04	0.001	0.04	0	1	0.04
e	0.07	0.052	0.07	1	0	0.07
Steven Death in Year 1	357144	298653	357144	1084797519663650	-522100	624301
Steven Death in Year 2	369054	305126	369054	1084797519751970	-1249833	655732
Steven Death in Year 3	381504	311919	381504	1084797519899590	-2659305	688410
Steven Death in Year 4	394514	319042	394514	1084797520165600	-5382499	722338
Steven Death in Year 5	408104	326505	408104	1084797520668090	-10633400	757510
Steven Death in Year 33	-305785	-89916	-305785	1117120994192670	-137438952841155	95044
Steven Death in Year 34	-526253	-196552	-526253	1158782177006570	-274877906278275	-194339
Steven Death in Year 35	-778792	-316595	-778792	1242104542594670	-549755813192231	-528872
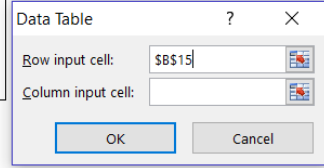
PART 3: MONTE CARLO SIMULATION

The first two parts of the project are still deterministic analyses. Part 3 allows the seven economic assumptions to follow probability distributions and introduces students to a simple application of Monte Carlo simulation using Excel's Data Table.

Monte Carlo simulation adds variability (or uncertainty) to input variables and provides a more comprehensive view of their impact on output variables. During a Monte Carlo simulation, values are randomly drawn from input variables' probability distributions and used to calculate corresponding output values. The process can be repeated thousands or hundreds of thousands of times to generate probabilistic distributions of outcome values.

There are many commercial software programs that can be used to conduct complex Monte Carlo simulations. This project demonstrates how Excel's Data Table can be used to run simple Monte Carlo simulations.

Table 8 presents the simulation setup with 1,000 iterations. Note that columns L through AP and rows 17 through 1001 are hidden to show the entire setup.

Cells C4-I4 contain the seven inputs (economic factors), which are all assumed to follow Normal distributions[17] and use the same Excel function NORMINV (Rand(), mean, standard deviation), which calculates the inverse of the cumulative Normal distribution function for a given probability, a given mean, and a given standard deviation.[18] Instead of using a fixed probability, we use a random number generator rand (), which returns an evenly distributed random real number between 0 and 1.

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[17] These inputs are most likely to follow skewed distributions, but Normal distribution is used for illustration because it is the one probability distribution that students are most familiar with.
[18] For instance, Norminv (0.1, 0, 1) = -1.28, which means that the cumulative probability of a standard Normal distribution taking values smaller than -1.28 is 0.1.

	Iteration No.	i	j	d	p	s	c	e	Steven Death in Year 1	Steven Death in Year 2	Steven Death in Year 34	Steven Death in Year 35
		0.0211	0.0291	0.0665	0.0077	0.1091	0.0020	0.0693	320517	329844	156986	79353
	1											
	2											
	3											
	4											
	5											
	6											
	7											
	8											
	9											
	10											
	11											
	12											
	998											
	999											
	1000											

Table 8: Monte Carlo Simulation - Setup

cell C4 = NORMINV(RAND(),0.05,0.03)
cell D4 = NORMINV(RAND(),0.04,0.03)
cell E4 = NORMINV(RAND(),0.07,0.04)
cell F4 = NORMINV(RAND(),0.03,0.03)
cell G4 = NORMINV(RAND(),0.08,0.06)
cell H4 = NORMINV(RAND(),0.001,0.005)
cell I4 = NORMINV(RAND(),0.05,0.04)

cells J4 - AR4 are set equal to transpose of the last column in Table 4

Cells J4 through AR4 are set equal to the transpose of the last column in Table 4. Similar to Part 2 of the project, Tables 2-4 must be linked to Table 8 before using Data Table. For instance, instead of inputting a fixed number of 0.02 for i and 0.052 for e in Table 4, we need to set them equal to cells C4 and I4 in Table 8, respectively.

To run Data Table, select the outlined area (B4: AR1004) in Table 8. Go to "Data" tab in Excel and click "What-if Analysis." Then select "Data Table" and a small window pops up (as shown in Table 9). Leave "row input cell" empty and select cell A1 for "column input cell."[19] Click ok and cells C5 through AR1004 will be automatically populated.

Every time key F9 is pressed or the spreadsheet is worked on, Excel will run simulation and the numbers in Table 9 will change.

Given the simulation results, statistics such as the mean, median, standard deviation, and percentiles may be calculated, and histograms may also be constructed.[20]

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[19] Again, recall that Data Table can only handle one input cell so the various combinations of our seven inputs are represented by different iterations, which are shown in column B. This is why in the simulation exercise, we fill in "column input cell." Note that any empty cell on the worksheet (such as A1) can be used as column input cell, which is how simulation works in Data Table.

[20] Simulation-based computer programs, such as @Risk, can automatically generate histograms and distributions of output values. Students need to use Excel's data analysis or other features for these tasks.

Iteration No.	i	j	d	p	s	c	e	Steven Death in Year 1	Steven Death in Year 2	Steven Death in Year 34	Steven Death in Year 35
	0.0530	0.0222	0.0327	-0.0025	0.1099	0.0073	0.0631	1259226	1295214	515032	337689
1	0.0602	0.0082	0.0452	-0.0041	0.1826	0.0061	0.0124	1272890	1319531	-3782058	-4849342
2	0.0132	0.0248	-0.0351	0.0744	0.0905	-0.0021	0.0764	1306971	1266257	282467	239493
3	0.0719	0.0656	0.0711	0.0470	0.0546	0.0049	0.0633	702035	741677	1440619	1219191
4	0.0500	0.1334	0.0498	0.0065	0.1042	-0.0019	0.0265	-1426108	-1507137	556509	408581
5	0.0515	0.0633	0.0838	0.0305	0.0792	0.0014	0.1061	338545	355428	839439	725171
6	0.0254	0.0474	0.0285	0.0099	0.1245	-0.0004	0.0919	331617	336559	-161982	-303302
7	0.0284	0.0336	0.0622	-0.0087	0.0609	-0.0028	0.0180	373925	384806	686380	652323
8	0.0909	0.0410	0.0790	0.0029	0.0861	0.0090	0.0383	1178714	1259557	2093522	1670390
9	0.0414	0.0498	0.0692	0.1006	0.1119	0.0012	0.0028	377324	387511	67674	-89536
10	0.0725	-0.0066	0.1264	0.0085	0.0752	-0.0040	0.0583	538638	586731	1372711	1154389
11	0.0194	0.0452	0.0980	-0.0361	0.1308	0.0019	0.0385	195049	195191	-390361	-547550
12	0.0318	0.0268	0.1441	0.0376	0.0774	0.0062	0.0433	257001	268251	590351	543768
998	0.1038	0.0491	0.0518	0.0984	0.2044	0.0047	0.0246	2597756	2721115	-6153999	-8679674
999	0.0201	0.0544	0.0479	0.0655	0.0869	-0.0050	-0.0424	131656	123407	380190	337470
1000	0.0745	0.0439	0.0716	0.0878	0.0060	0.0081	0.0648	914705	970532	1499362	1252666

							Average	931919	955938	277169	-52209
							Median	513451	543642	732317	659909
							Std. Dev.	1807657	1781644	3201159	3908613
							P95	3054734	3136330	2290101	1875237
							P5	-45569	-59053	-3174359	-4125034

Data Table ? ×

Row input cell: [ ]

Column input cell: $A$1

OK   Cancel

DISCUSSIONS

While previous sections focus on calculations and Excel setup, this section provides discussions of other important aspects of the project.

Validity of Assumptions

As indicated earlier in the paper, two broad categories of assumptions will affect financial planning outcomes.

The first category concerns the hypothetical family's financial situation: when they start the planning process, what are their beginning resources, and what financial goals they want to achieve. While the project follows the same assumptions as Black and Skipper (2000), it is important to remind students how the assumptions may vary from family to family. For instance, most families may desire to save more money when their children are in college, but the textbook assumes that the hypothetical couple will cut their educational fund in half once their oldest child goes to college. This may sound counter-intuitive, but there are situations where such assumptions make sense. Many universities allow their employees' dependents to attend their schools for free, and some states, such as New York, are beginning to offer free four-year college education in public schools.

Students are also reminded that the social security benefits are just estimates and not guaranteed. Any change in internal factors (such as the family's income level) and external factors (such as legal and regulatory changes to the social security system) will affect the social security benefits.

The second category of assumptions is about prediction of future economic conditions, such as inflation rate and discount rate. The assumptions used in Part 1 demonstration, (i, j, d, p, s, c, e) = (0.02, 0.03, 0.07, 0.08, 0.12, 0.001, 0.052), are based on current economic conditions.[21] "Student 3" scenario mentioned in Part 2 demonstration

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[21] For instance, the current inflation rate is around 2% (https://www.bls.gov/cpi/), the pay raise rate is about 3% (https://www.bls.gov/news.release/eci.nr0.htm), and the tuition increase rate is about 3.2% beyond inflation rate

is an extremely conservative set of assumptions, while "Student 4" scenario is an extremely aggressive set of assumptions. Students may be asked to research current economic conditions to find out what assumptions may be more realistic to use for financial planning. They are also reminded that prudent financial planning is often done with more conservative assumptions.

In Part 3 of the project, the economic factors are assumed to all follow Normal distributions, which apparently is not realistic and is used only for illustration purpose. Students may be asked to research real data to identify more realistic distributions of the economic factors.

Types of Insurance Products

This project focuses on the calculation aspect of financial planning, but it is also an integral part of the author's introductory life insurance course and closely related to other important topics. For instance, the concept of time value of money and types of life insurance policies are covered prior to lectures on financial planning. Students are equipped with the needed knowledge to conduct calculations of present value and future values as required in the project. They are also reminded that different insurance policies may be used to fulfill the hypothetic family's financial goals. For instance, the family may purchase a whole life insurance policy and supplement it with a term insurance policy in the early years when they need to save more money for college planning. Alternatively, the family may use a universal life insurance that allows flexibility in premium payments and death benefit patterns. Variable life insurance policies may also be considered if the family wants to reap the benefits of promising investment returns.

The project follows Black and Skipper (2000) and assumes that the surviving spouse will purchase an annuity to start at age 70. It is important to explain to students that different types of annuity products may be used. The family may use fixed annuity, variable annuity, or other products that fit their needs.

Extension and Application of the Project

This project uses Excel in the execution of all three parts.[22] There are many other ways to do scenario analysis and Monte Carlo simulation. Interested instructors may explore other computer programs to implement the project, depending on their schools' resources.

The life insurance course is at the undergraduate level, with most students being juniors or seniors. This project may be used in other insurance courses at both the undergraduate- or graduate-level. For instance, it may be incorporated into a principles of insurance and risk management course to demonstrate how life insurance can be used as an important risk financing tool to handle premature death risk. If graduate students are the audience for a course, they may be asked to do a personal financial planning for themselves (rather than use the textbook case). They may research real data to find more realistic assumptions to use in the planning process.

CONCLUSION

This teaching note details an Excel-based project used in an introductory life insurance course. Students are asked to evaluate the impact of changing assumptions on financial planning outcomes. The use of Excel enables students to see financial planning in action and to appreciate the importance of life insurance in fulfilling financial goals.

APPENDIX: USE OF LIFE INSURANCE IN PERSONAL FINANCIAL PLANNING

Consider the Steven-and-Gwen example discussed in class. Assume the same financial objectives and resources shown in Table 1, do the following three-part analyses.

Part 1: Dynamic Analysis with Given Set of Economic Assumptions

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(https://trends.collegeboard.org/college-pricing/figures-tables/average-rates-growth-published-charges-decade) (which is why we assume a 5.2% increase in educational fund).

[22] A complete Excel file used in the project is available from the author upon request.

Instruction: 1) Use the following scenario table[23] to find your assigned set of (i, j, d, p, s, c, e). For instance, if you are student 1, use (0.02, 0.03, 0.07, 0.08, 0.12, 0.001, 0.052). 2) Set up three worksheets (similar to Tables 2-4 discussed in class) to calculate income shortage, liquid assets available on death, and additional life insurance needed, respectively. 3) Graph income shortage, liquid assets available on death, and additional life insurance needed over time. Discuss the trend or pattern you observe and make recommendations on what types of insurance policies may be best used to fit the family's needs.

| Scenario No. | 1 | 2 | 3 | 4 | 5 |
Description	Student 1	Student 2	Student 3	Student 4	Student 5
i	0.02	0.04	1	0	0.06
j	0.03	0.05	0	1	0.05
d	0.07	0.07	0	1	0.07
p	0.08	0.15	0	1	0.15
s	0.12	0.1	0	1	0.1
c	0.001	0.04	0	1	0.04
e	0.052	0.07	1	0	0.07

Part 2: Scenario Analysis

Instruction: Consider all five scenarios shown in Part 1 at the same time. Use Excel's "Data Table" to run a scenario analysis of additional life insurance needed.

Part 3: Monte Carlo Simulation

Assume (i, j, d, p, s, c, e) all follow Normal distribution with the following specifics about the mean and the standard deviation:
- $i \sim N(0.05, 0.03^2)$
- $j \sim N(0.04, 0.03^2)$
- $d \sim N(0.07, 0.04^2)$
- $p \sim N(0.03, 0.03^2)$
- $s \sim N(0.08, 0.06^2)$
- $c \sim N(0.001, 0.005^2)$
- $e \sim N(0.05, 0.04^2)$

Instruction: Use Excel's Data Table to run a Monte Carlo simulation with 1,000 iterations and calculate additional life insurance needed.

REFERENCES

Baranoff, E., 2001, The Risk Balls Game: Transforming Risk and Insurance into Tangible Concepts, *Risk Management and Insurance Review*, 4(2): 51-58.

Black, Kenneth Jr., and Harold D. Skipper, Jr., 2000, Life and Health Insurance, 13th edition, ISBN: 9780138912505, Prentice Hall.

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[23] The author usually sets the number of scenarios equal to the number of students in the introductory life insurance course. The number fluctuates from semester to semester, with an average class size of around 25. Five scenarios are used here for illustration purpose.

Epermanis, K., and D. Wood, 2013, Amusement Central: A Case Study, *Journal of Risk Education*, 4 (1): 4-32.

Ferris, S., 2012, Expensive Mistakes: Operational Risk in Life Insurance, *Risk Management and Insurance Review*, 15 (2): 263–288.

Lei, Y., 2011, Minimizing the Cost of Risk with Simulation Optimization Technique, *Risk Management and Insurance Review*, 14 (1): 121-144.

Pope, N. and Y. Ma, 2004, Grade-Risk: An Insurable Event in the Classroom, *Risk Management and Insurance Review*, 7 (2): 189-196.

Weston, H., 2016, Case Study: Life Insurers' Decision To Use Retained Asset Accounts For Life Insurance Payouts, *Risk Management and Insurance Review*, 19 (1): 127-145.

Using Discussion Boards to Increase Student Engagement in Learning

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ABSTRACT

Researchers have long recognized the importance of student engagement in enhancing learning. Online discussion boards have been shown to be a more active form of learning than traditional lecture models in engaging students. This paper shares the author's experience of using discussion boards in insurance and risk management courses. It also details some of the author's discussion board forums which may be used by interested professors.

INTRODUCTION

Alexander Astin (1984)'s seminal work on "student involvement theory" hypothesizes that the more students are involved or engaged in college, the greater the amount of student learning and personal development. Considerable research has been done since then. Trowler (2010) surveys the literature and reports that numerous studies have shown strong correlations between student involvement and their success and development, including academic achievement and social engagement. Simply put, students learn and do better when they become more involved and engaged.

While student engagement involves both academic and non-academic efforts, this paper focuses on the academic side of the involvement/engagement theory, that is, when students are more engaged in their course work, they learn more effectively. Carefully planned discussions are considered an effective way to increase student commitment and elicit higher levels of critical thinking and creative problem-solving (Fleming, 2008). Ewens (1989) shows that students retain information gained through active discussion better than materials learned through lectures.

As more and more higher-education institutions move to incorporate online learning elements in their traditional on-ground and non-traditional online courses, asynchronous discussion boards[1] have become one of the major tools that professors may use to turn students from relatively passive to more active learners. As Gunawardena et al. (1998) points out, groups that are separated in time and space can still share knowledge with asynchronous communications. Vonderwell et al. (2007) conducts a case study and reports that students enrolled in classes utilizing these types of discussions valued them as an essential component of their online learning. Flemming (2008) posits that discussion boards, as an active form of learning, work better than traditional lecture models in helping students learn, retain, and apply course content to novel and practical situations. She concludes that more active engagement with course contents results in more involved, interested, motivated, and participatory students.

Even though the benefits of discussion boards have been well researched, there is very little sharing of their application in risk and insurance education. This paper fills the gap by sharing the author's experience of adopting discussion boards in both undergraduate- and graduate-level risk and insurance courses. The paper will also present some of the discussion board forums designed by the author.

The paper proceeds as follows: a literature review will be given on how discussion boards engage students and enhance learning, followed by the author's best practices of using discussion boards. A sampler of forums designed by the author follows, and the paper ends with a brief conclusion.

LITERATURE REVIEW

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[1] Online discussion can also be synchronous (when students are logged in at the same time and share ideas back-and-forth in real time). This paper focuses on asynchronous discussions (when students are logged in at their convenience) because they offer students more flexibility and are what the author adopts in teaching.

Research generally points to the following major reasons that discussion boards make for more effective learning.

Online discussion boards create learning communities and social environments that foster interactions and collaborations among students who can share their thinking processes with peers and critique each other's ideas. As such, they stimulate student engagement (Flemming, 2008), provide opportunity to build new knowledge or add to pre-existing knowledge (Burgess, 2009), and result in more effective learning (Coole and Watts, 2009). Kupczynski, Mundy, & Maxwell (2012) conclude that when students learn from their peers, they are also moving away from a teacher-centered learning environment toward one that is more student-centered.

Discussion boards often result in more thoughtful and articulate responses from students. Unlike traditional in-class rapid-fire back-and-forth discussions, online asynchronous discussion boards give students more time to think through issues on hand, hence increasing their involvement with course materials (Fleming, 2008). Chickering and Ehrman (1996) note that increased time on task is one of the most effective teaching strategies that a professor can use to enhance learning processes. When students take time to reflect and consider their responses, they tend to produce more thoughtful and articulate answers (Beeghly, 2005). As students are often required to comment on their peers' posts, they are forced to read others' perspectives and tend to be more careful in forming their arguments and positions (Berge, 1997).

Discussion boards also encourage total student participation. (Fleming, 2008) notes that it is difficult for a professor to get everyone to participate in classroom discussions, but with online discussion boards, students would find it difficult to hide behind the medium. Moreover, many researchers (see, for instance, Rosenfeld and Gregory, 2012) have commented on how discussion boards help shy students find their voice. While some students thrive in face-to-face classroom discussions, others feel overwhelmed when all eyes are on them. Such shy students, however, often actively participate in online discussion without feeling anxious. Their insights can then benefit the whole class.

Discussion boards help extend class time as well (Rosenfeld and Gregory, 2012). Sometimes professors may not have enough time to elaborate on a certain topic, but the discussion can continue online, well after the class is over. Moreover, discussion boards can be used to further discussions of topics that students find interest in and want to know more about.

The interactive nature of discussion boards allows students to quickly check on any comments from fellow students or professors (Fleming, 2008). Prompt feedback will in turn help students become more engaged in discussions.

Discussion boards are a great tool to help professors assess student understanding of given issues (Lindsey-North, 2000), catch common misconceptions, and gauge student interest in specific topics (Rosenfeld and Gregory, 2012). Professors can offer individualized feedback to students and help them better comprehend course materials.

BACKGROUND OF MY USE OF DISCUSSION BOARDS

I began using discussion boards in fall 2014, when I was teaching an undergraduate-level traditional on-ground principles of insurance course. My thinking then was to experiment with new teaching methods to enhance students' learning experience.[2] When I was assigned to teach an online graduate-level insurance course the following year, I became even more appreciative of the usefulness of discussion boards. I later designed two more online graduate-level courses, where I continue the use of discussion boards.

I now regularly use discussion boards in both online and traditional courses, from introductory undergraduate-level principles courses to graduate-level risk management and insurance courses.

Both my undergraduate and graduate students comment that they enjoy the topics covered in discussion board forums and are happy to have a platform to share their understandings and opinions of insurance related contents.

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[2] I actually had been teaching this face-to-face principles of insurance course for years, but I decided to try some new teaching techniques that might be used in online courses in the future (my school began offering online courses around that time).

My experience shows that discussion boards are effective learning communities where students learn from each other. As students respond to questions and comment on each other's posts, they often express surprise of finding something new by reading fellow students' sharings. I see a lot of back-and-forth discussions among students, who really take charge in their own learning. Since everyone's post is there for the entire class to see, I have also found that most students produce very thoughtful responses. Another (nice) surprise that I have experienced is that many shy students (in my traditional on-ground classes) turn out to be very active in online forums, and they often amaze me with their insights on various topics. This is very important to observe because it asserts the importance of using discussion boards in traditional courses, where not every student feels comfortable talking in front of the entire class.

DESIGN OF DISCUSSION BOARDS

My discussion boards consist of required readings, response to questions, and comments on fellow students' posts. Students are asked to read assigned articles before answering questions related to the articles and critiquing others' posts.

I have found a lack of resources during the past three years of using discussion boards in my courses. While there are many ready to purchase (and use) case studies in other business fields, there are very few resources available for insurance professors to use. This is the major motivation for this paper, with which I hope to share my positive experience of using discussion boards with fellow insurance professors.

Most of the articles used for my discussion boards are from *The Wall Street Journal (WSJ)*, to which my school offers free subscriptions to faculty and students. I spend a lot of time going through *WSJ* articles to see which ones fit particular topics in my courses. Once I find suitable articles, I design questions that require students to analyze information from the articles.

The purpose of my discussion boards is to deepen students' understanding of course materials and to enable them to see applications of insurance and risk management principles in real world examples. The chosen articles are closely related to what is being discussed in class, and the questions are designed to stretch students' understanding of given topics. In order to provide a sound response to the questions, students must reflect on course materials and analyze (or problem-solve) real world examples. It is interesting to see that students often draw on their own personal experiences (without being asked) in forming opinions about certain subjects. As a professor, I am pleased to see students are teaching themselves about the significance of the materials discussed in class. Reading the conversations between students never cease to amaze me. My own experience does prove that discussion boards create student-centered learning opportunities as suggested by research.

IMPLEMENTATION AND ASSESSMENT OF DISCUSSION BOARDS

While many course management systems have discussion board functions, my school uses Blackboard. My classes usually have no more than 35 students, so I normally have only one discussion board group for each class. For professors who teach much larger classes (say, 50 students or more), they may want to consider creating multiple discussion groups. This way students won't feel overwhelmed reading everyone's post.

While professors may run discussion boards in many different ways, I usually serve as a facilitator without interfering with conversations between students. If I see any widespread misconceptions or notice any general questions, I explain either in class (for traditional courses) or send a clarification note (for my online courses) to all students.

All my discussion boards are graded, though their significance in grading varies from course to course. For instance, I have 12 discussion board forums in my standard 15-week traditional undergraduate courses, but I only use the highest 9 forum grades. The forums, in total, account for around 10% of the total grade. My graduate-level online courses have different durations (6 weeks, 7 weeks, and 15 weeks), and I usually give weekly discussion boards, which together account for more than a third of students' total grades.

Students must post first before they are allowed to see others' responses.[3] This is to force students to think for themselves first and develop their own preliminary ideas on forum topics. Once they form their own opinions, they do a better job appreciating other's ideas and critiquing others' posts.

For each forum, students are given one week to read assigned articles and compose their responses. They are then given two more days to critique others' post. My discussion board forums usually have instructions like this:

- Read the following articles:
- Discuss the following questions:
- Note:
  - This is a post-first forum, which means you must post an initial response before you are allowed to see other peoples' posts.
  - Each student must answer the above questions and critique at least two fellow students' posts.
  - You may earn up to 10 points for your own original posts. Meaningful responses to fellow students' posts may earn you up to 5 points. (A simple "I agree/disagree," "Good job," or things of that nature will not accrue points for you).
  - Your own response to the questions is due by 11:59 PM on Saturday, January 28, 2017; your critique of at least two fellow student's posts is due two days later by 11:59 PM on Monday, January 30, 2017.

The total number of points students earn on their own posts and critiques varies from course to course. The due dates are also dependent on particular courses.

A SAMPLER OF MY DISCUSSION BOARDS

As I indicated earlier, there is a dearth of ready-to-use articles directly targeting risk and insurance courses. In this section I share some of the forums that I designed over the years, and interested instructors are encouraged to adopt or modify them for use in their risk management and insurance courses.

My forums span different risk and insurance topics.[4] I present each forum first, followed by a brief teaching note.

Topic 1: Importance of Risk Management

Read the following articles:
A Risk Management Failure Story: Sydney Opera House
   1. **The Sidney Opera House construction: A case of project management failure** (http://www.eoi.es/blogs/cristinagarcia-ochoa/2012/01/14/the-sidney-opera-house-construction-a-case-of-project-management-failure/)
   2. **Why Sydney's Opera House was the world's biggest planning disaster** (http://www.couriermail.com.au/news/why-sydneys-opera-house-was-the-worlds-biggest-planning-disaster/news-story/9a596cab579a3b96bba516f425b3f1a6?sv=6121ff9f9be7f1a7ffe3be888067f202)
   3. **Risk Analysis Case Study: The Sydney Opera House** (http://www.orbee.org/images/5cc-resource-files/1314270516_Risk%20Analysis%20Case%20Study%20Sydney%20Opera%20House%20Part%202.doc)
   4. **Project Evaluation: Sydney Opera House** (https://ocw.mit.edu/courses/civil-and-environmental-engineering/1-011-project-evaluation-spring-2011/projects/MIT1_011S11_proj_ex01.pdf)

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[3] Blackboard offers the option to make discussion board forums "post-first" or "not-post-first."
[4] Though I put each forum in one category of risk topic, it is apparent that the same forum may be used to demonstrate other risk management and insurance topics.

<u>A Risk Management Success Story: London 2012 Olympic Games</u>:
5. **Risk managing the London 2012 Olympic Games** (http://www.strategic-risk-global.com/risk-managing-the-london-2012-olympic-games/1416536.article)
6. **The Olympics as a Story of Risk Management** (https://hbr.org/2012/08/the-olympics-as-a-story-of-ris)
7. **Mega-Events and Risk Colonisation, Risk Management and the Olympics** (http://www.lse.ac.uk/accounting/CARR/pdf/DPs/Disspaper71.pdf)

Discuss the following questions:
1. What was your perception of risk and risk management before reading these articles?
2. What are your thoughts after reading the above articles?
3. List and discuss three factors that contributed to the project risk management failure of the Sydney Opera House.
4. List and discuss three factors that contributed to the success of the 2012 London Games.

Teaching note:
This forum is designed to help students see the importance of sound risk management. While the Sydney Opera House is known for its architecture achievements, it is also considered a case of risk management failure. The London 2012 Olympic Games, on the other hand, have been lauded as an example of good risk management. My students are often amazed by the two cases, and many indicate that they had never realized the role of risk management in ensuring success of business endeavors.

Topic 2: Risk Identification

Read the following articles:
1. **Theranos Settles Lawsuit with Partner Fund** (https://www.wsj.com/articles/theranos-settles-lawsuit-with-partner-fund-1493666183)
2. **Theranos Secretly Bought Outside Lab Gear and Ran Fake Tests, Court Filings Allege** (https://www.wsj.com/articles/theranos-secretly-bought-outside-lab-gear-ran-fake-tests-court-filings-1492794470)
3. **Hot Startup Theranos Has Struggled with Its Blood-Test Technology** (http://www.wsj.com/articles/theranos-has-struggled-with-blood-tests-1444881901)
4. **Craving Growth, Walgreens Dismissed Its Doubts About Theranos** (http://www.wsj.com/articles/craving-growth-walgreens-dismissed-its-doubts-about-theranos-1464207285)

Discuss the following questions:
1. As Theranos is being investigated by the federal government, its stakeholders are facing a myriad of risks. For each of the following entities, identify and discuss two (2) risks they face: a) Theranos, b) its investors, c) its partner Walgreens, and d) patients who use Theranos for blood tests.

Teaching note:
This forum is designed to help students see how various stakeholders of any given organization may face different risks that arise from its business activities, be it merger and acquisition, launch of new products, or other business practices. This Theranos case can certainly be replaced by any other business story, and we may still ask students to do a similar risk identification exercise.

Topic 3: Risk Measurement

Read the following article:

1. **Judges Turn to Risk Evaluation Tools in Sentencing Decisions** (http://online.wsj.com/articles/judges-turn-to-risk-evaluation-tools-in-sentencing-decisions-1411499848?KEYWORDS=risk+score)

Discuss the following questions:
1. This article indicates that judges usually base punishment for a certain offense on two major things: severity of current offense, and risk of reoffending. One would think two people that commit exactly the same crime should be given the same sentence. But, given the sentencing system we have, one criminal may get life, while the other probation, simply because they have different probabilities of future criminal activities. What's your take on this? Do you think it's fair to also consider the risk of reoffending in a sentencing decision? Provide your justification.
2. The article talks about how different risk-evaluation tools are used to predict the risk of reoffending. Note that it's not much different from insurance actuaries using various models to predict policyholders' future claims costs. Some of the major factors considered include: criminal history (akin to your driving history if you're applying for auto insurance), age, gender, race, marital status, employment, education, and county of residence. Pick three (3) factors and discuss how you think they can predict future offenses. (An analogy for your reference: males are charged more for auto insurance because they're assumed to be worse drivers and expected to cause more losses than females)

Teaching note:
> This forum is an eye opener case for my students, who had never thought about the use of risk scores in the justice system. Students get to see how the determination of sentences is akin to that of insurance prices. This forum also elicits the strongest opinions from students, some of whom are in favor of the point system mentioned in the article while others show opposition.

Topic 4: Liability Issues (Tort System)

Read the following article:
1. **Supreme Court Sends Spokeo Case Back to Lower Court** (http://www.wsj.com/articles/supreme-court-sends-spokeo-case-back-to-lower-court-1463412498)
2. **Spokeo Case Stirs Supreme Court** (http://www.wsj.com/articles/spokeo-case-stirs-supreme-court-1446500803)
3. **Court May Decide Future of Class-Action Cases** (http://www.wsj.com/articles/court-may-decide-future-of-class-action-cases-1443665003)

Discuss the following questions:
1. What are the arguments in favor of the opinion that the plaintiff has suffered injuries?
2. What are the arguments against the opinion that he has suffered concrete injuries?
3. Why are business groups and tech companies, including eBay Inc., Facebook Inc. and Google Inc., supporting Spokeo?
4. Why are consumer groups supporting the plaintiff?
5. What is your take on this matter? Should this class-action lawsuit be allowed to proceed? Why?
6. Let's suppose the case will proceed. How would you quantity (put a dollar amount on) the possible special damages, general damages, and punitive damages the plaintiff may have suffered?

Teaching note:
> Students take great interest in this forum because they live in the social-media era and a lot of their personal information is posted online either voluntarily or involuntarily. This forum also helps students see how the four elements of a negligent act (legal duty, breach of duty, harm, and proximate cause between breach of duty and harm) come into play in the judge's decision. Plaintiff Thomas Robins sued Spokeo in 2010, but the lawsuit was dismissed by a trial judge in 2011. He appealed, and a federal appeals court allowed his class-action lawsuit to proceed last year. Spokeo appealed and the Supreme Court sent the case back to

the appeals court, saying it "used the wrong legal analysis when it allowed the lawsuit to go forward." Students have a lot of fun debating whether the plaintiff had suffered actual harm or injury.

Topic 5: Workers' Compensation and Tort System

Read the following article:
1. **Judge halts worker's comp claim for Ebola nurse Nina Pham** (http://jobs.aol.com/articles/2015/04/21/judge-halts-workers-comp-claim-for-ebola-nurse-nina-pham/)
2. **Judge issues temporary restraining order in Ebola nurse Nina Pham's lawsuit** (http://www.dallasnews.com/news/metro/20150420-judge-issues-temporary-restraining-order-in-ebola-nurse-nina-phams-lawsuit.ece)
3. **Nina Pham, Nurse Who Survived Ebola, Sues Texas Hospital** (http://www.nbcnews.com/storyline/ebola-virus-outbreak/nina-pham-nurse-who-survived-ebola-sues-texas-hospital-n315776)
4. **The real story of how a Dallas nurse got Ebola could be worse than we ever imagined** (http://www.businessinsider.com/ebola-nurse-nina-pham-sues-texas-health-resources-2015-3)

Discuss the following questions:
1. One of the articles indicates that "The workers' compensation court would have to determine whether Pham was an employee of Presbyterian, THR, or both." Why does Pham's employment status matter in the workers' compensation case?
2. Why do you think THR wants to get Pham covered under workers' compensation?
3. One article indicates that "Walker said, that in previous lawsuits, THR has argued that its hospitals are the employers, not the company that owns them." What do you think Walker was trying to imply here? What inference do you draw here? (Remember, he is one of the lawyers representing Pham in her lawsuit against THR.)
4. Why do you think Pham and her lawyers want to press forward with their medical malpractice lawsuits against THR?

Teaching note:
> Pham is suing Texas Health Resources (THR), parent company of Texas Health Presbyterian Hospital Dallas (where she worked during the Ebola crisis and remains employed today). This forum has something to do with a workers' compensation system as an alternative system to a tort system. Under the workers' compensation system, injured workers have quicker access to compensation but cannot sue employers. Under the tort system, injured workers must prove their employers are at fault but may receive much more compensation (including special damage, general damage, and punitive damage). This forum helps students see the tradeoff between the two systems and how it affects plaintiff and defendants' decisions.

Topic 6: Life Insurance

Read the following six articles:
1. **FSOC: For Sure Overly Capricious? MetLife Thinks So** (http://americanactionforum.org/research/fsoc-for-sure-overly-capricious-metlife-thinks-so)
2. **MetLife Suit Sets Up Battle Over Regulation** (http://www.wsj.com/articles/metlife-to-challenge-systemically-important-tag-1421152441)
3. **Regulators Deem MetLife a 'Too Big to Fail' Institution** (http://dealbook.nytimes.com/2014/12/18/metlife-deemed-systemically-important-but-says-its-not/)
4. **MetLife CFO Laments Difficulty of Defining 'Systemic'** (http://www.bloomberg.com/news/articles/2015-06-04/metlife-cfo-says-global-regulators-blunder-in-defining-systemic)

5. **Delaware Regulator Says Federal Overseers Should Keep Mits Off MetLife**
   (http://blogs.wsj.com/moneybeat/2014/10/20/delawares-insurance-regulator-says-federal-overseers-should-keep-their-mits-off-metlife/?KEYWORDS=metlife)
6. **New York's Financial Regulator Questions Fed Oversight of MetLife**

(http://online.wsj.com/articles/new-yorks-financial-regulator-questions-fed-oversight-of-metlife-1407258947?KEYWORDS=metlife)

Discuss the following questions:
1. What is the Fed's rationale for labelling MetLife "systemically important"?
2. What are the counter arguments that MetLife, the Delaware regulator, and New York's financial regulator use to fight the designation of "systemically important"?
3. How do you think the designation of "systemically important" will affect MetLife financially (in terms of product price, product demand, share price, growth opportunity, etc.)?
4. If you were a policyholder of MetLife's, would you like to see it's labelled "systemically important"? Why?
5. If you were an investor of MetLife's, would you like to see it's labelled "systemically important"? Why?
6. Research what the current status of the lawsuit is.

Teaching note:
   This forum helps students understand the "too big to fail" regulation as it applies to the insurance industry. By reading the articles, students also see what typical traditional products are offered by insurance companies and what are some non-traditional (and much riskier) non-insurance products that may cause trouble to carriers. This forum is a supplement to my discussion of the AIG case in class. They realize that even though both AIG and MetLife are insurance companies, they engage in very different risk-taking activities and thus face different consequences.

Topic 7: Employment Practices

Read the following articles:
1. **Are Workplace Personality Tests Fair?** (http://online.wsj.com/articles/are-workplace-personality-tests-fair-1412044257?KEYWORDS=personality+test)
2. **Better to Be Artistic or Responsible? Decoding Workplace Personality Tests**
   (http://blogs.wsj.com/atwork/2014/09/29/better-to-be-artistic-or-responsible-decoding-workplace-personality-tests/?KEYWORDS=personality+test)

Discuss the following questions:
1. From a job applicant's perspective, do you think job-screening personality tests effectively assess job seekers' qualifications and predict their future job performance? Provide justifications in your discussion.
2. From an employer's perspective, what are the benefits of using these tests in their increasingly automated hiring process? What are potential consequences (financial risks) if these tests fail to assess an applicant's qualifications and the company ends up hiring the wrong person?
3. Why is the Equal Employment Opportunity Commission investigating personality tests? What is the Agency's major concern?
4. If you were one of the test makers, what would you do to fend off claims that these tests discriminate people with disabilities? Obviously, you still want to sell as many tests to as many employers as possible.
5. How do you think employers should use these tests? (Early in the hiring process before any form of interview is conducted? Or late into the hiring process when several rounds of interviews are already done? Or completely abandon the use of such tests? Other ideas?)

Teaching note:

This forum is designed to help students see how employers may get sued for their employment practices, such as the use of personality tests mentioned in the articles. Many students shared their own experience of taking such tests in their posts and explained why they are in favor of, or oppose such practices.

Topic 8: Cost of Employee benefits

Read the following three articles:
1. **Startups Scramble to Define 'Employee'** (http://www.wsj.com/articles/startups-scramble-to-define-employee-1438228860)
2. **Luxe Valet to Convert Independent Contractors to Employees** (http://www.wsj.com/articles/luxe-valet-to-convert-independent-contractors-to-employees-1438210444)
3. **Uber Driver Was Employee, Not Contractor, California Commission Says** (http://www.wsj.com/articles/uber-driver-was-employee-not-contractor-california-commission-says-1434557958)

Discuss the following questions:
1. What benefits do companies gain when they classify their workers as "contractors" instead of "employees"?
2. What are the potential financial consequences (or losses) that may arise from such employment lawsuits?
3. If you were an Uber driver or a Homejoy cleaner, would you want to be classified as an employee or a contractor? Why? (In other words, what are the advantages and disadvantages from a workers' perspective?)
4. If you were a customer of these startup companies, would you want a "contractor" or an "employee" to service you? Why?

Teaching note:
All these cases involve contractor-driven startups classifying their workers as contractors or employees. This forum helps students see why and how a simple definition of employees may affect employee benefits. I have also used other examples to show how definition of full-time employees affects total employ benefits costs.[5]

Topic 9: Risk Financing

Read the following article:
1. **Supreme Court approves Obamacare subsidies on HealthCare.gov** (http://www.cnbc.com/2015/06/25/supreme-court-approves-obamacare-subsidies-on-healthcaregov.html)

Discuss the following questions:
1. Do you think health care should be a right or a privilege? Whatever your answer is, give two reasons/arguments to support your position.
2. Currently people have the following channels to obtain their health insurance: 1) through employers; 2) through federal health exchange; 3) through state health exchange; 4) through private health insurers not on any of the exchanges. (Seniors 65 or older receive Medicare while low-income people receive Medicaid and other government-sponsored health insurance benefits). With option 1), the premiums paid by employees are tax deductible (meaning the premiums will reduce your taxable income dollar for dollar).

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[5] For instance, I had students read "Why a 40-Hour Worker Means More to Small Businesses (http://online.wsj.com/articles/why-a-40-hour-worker-means-more-to-small-businesses-1415817759?mod=WSJ_hps_sections_smallbusiness) and "Elevated Level of Part-Time Employment: Post-Recession Norm?" (http://online.wsj.com/articles/post-recession-legacy-elevated-level-of-part-time-employment-1415808672?KEYWORDS=legacy). The health-care law requires employers with 50 or more full-time equivalent workers to offer affordable insurance to employees working 30 or more hours a week or face fines ranging from $2,000 to 3,000 per employee. Students come to see how full-time and part-time statuses affect employers and employees.

With options 2) and 3), and after the Supreme Court's recent ruling, people who get health insurance on either federal or state exchange will continue to enjoy cost assistance (tax subsidy) if they meet income requirement. With option 4), all premiums paid are post-tax dollars (no favorable tax benefits at all). Given the above, do you think it is fair that people who obtain health insurance through different channels are given different tax treatments? If you were the federal government, what would you do? Would you takee away all the tax incentives, offer the same incentives to different purchase options, or maintain the status quo? Why?

Teaching note:
This forum helps students see how health care is financed in this country. I usually offer the following explanation to explain what a right is vs. a privilege:
---K-12 education is usually considered a right, which means every child is entitled to it regardless of his or her social-, economic-, ethnic-, and cultural backgrounds. Thus, taxpayers collectively provide financial support to education.
---On the other hand, owning a private jet (or a luxury condo) is considered a privilege. Thus, only those who can afford it are entitled to it. Taxpayers are not willing to pay extra taxes just to ensure everyone has a private jet.
---In Canada, health care is considered a right and the government provides national health insurance to cover everyone's health care cost.

Topic 10: Underwriting

Read the following articles:
1. **Insurers Seek Big Premium Boosts** (http://www.wsj.com/articles/insurers-seek-big-premium-boosts-1464220397)
2. **UnitedHealth: Who Needs Obamacare?** (http://www.wsj.com/articles/unitedhealth-who-needs-obamacare-1461081818)

Discuss the following questions:
1. Identify and discuss four (4) factors that affect a person's medical care cost. To help you with this question, let's use auto insurance as an example. Age, gender, miles driven, and tickets received are some of the underwriting factors that affect auto accident costs and auto insurance rates – younger people are more likely to have accidents and thus pay higher rates for auto insurance than older people. Similarly, males pay more than females; those who drive more miles pay more than those who drive less; those who receive more traffic tickets pay more than those who don't.
2. To reduce the uninsured population, the Affordable Care Act has significantly restricted insurers' underwriting decisions. Among the 4 underwriting factors identified in the previous question, which factor(s) is (are) still allowed to be used for underwriting under the Affordable Care Act?
3. What is the effect of underwriting restrictions on health care cost? Why are many insurers seeking premium boosts or even quitting the health insurance exchange (think UnitedHealth)?

Teaching note:
This forum is designed to help students see what factors may affect medical costs, how the ACA restricts insurers' medical underwriting, and what consequences insurers and consumers may face.

Topic 11: Regulation

Read the following articles:
1. **California Bill Would Change How Seafood is Labeled**
2. (http://blogs.wsj.com/riskandcompliance/2014/09/18/california-bill-would-change-how-seafood-is-labeled/?mod=WSJ_hps_sections_riskcompliance)

Discuss the following questions:
1. Why was the bill proposed in the first place (in other words, what problems was it trying to solve)? Who will benefit most from the proposed new labelling requirement?
2. Why are suppliers of seafood (including wholesalers, retailers and restaurants that sell seafood) opposing this measure? Do you foresee any kind of financial burden for them if the bill were to be passed? Why?
3. Given that the U.S. Food and Drug Administration already has a seafood list, do you think any individual state should bother to make their own seafood labelling regulation at all? Why?
4. If you were Gov. Brown, would you sign or veto the bill? If you were a seafood consumer, would you care at all about the names used to describe seafood?

Teaching note:
> This forum focuses on the FDA regulation of food safety. It is designed to help students see why the government would want to regulate any industry in the first place. This particular case demonstrates that regulation may be in place when we're concerned about consumer safety. I've also given students other cases to demonstrate other reasons for regulation. For instance, I once used Google as an example to show that the government is often concerned with anti-trust violations and may want to intervene with the private sector.[6]

Topic 12: Risk Management Techniques

Read the following articles:
1. **Volkswagen CEO Targeted in Emissions-Cheating Probe** (https://www.wsj.com/articles/volkswagen-ceo-targeted-in-emissions-cheating-probe-1495019275)
2. **Investors to Press for Independent Volkswagen Emissions Probe** (http://www.wsj.com/articles/german-investors-to-press-for-independent-volkswagen-emissions-probe-1464008995)
3. **Bad News? What Bad News? Volkswagen Bullish Despite Emissions Costs** (http://www.wsj.com/articles/volkswagen-says-diesel-car-buy-backs-to-cost-almost-9-billion-1461831943)
4. **Volkswagen Emissions Scandal Relates to 11 Million Cars** (http://www.wsj.com/articles/volkswagen-emissions-scandal-relates-to-11-million-cars-1442916906)

Discuss the following questions:
1. According to the articles, what risk management measures has the company put in place to handle the emissions cheating scandal? Discuss at least one example of risk control and one example of risk financing technique the company is using.
2. Why are investors pressing for an independent emissions probe? What risk(s) are they trying to mitigate here?
3. One article indicates that, "while the EU has a role in defining emission limits for cars, national authorities are responsible for enforcing those limits and the associated test procedures." What risks do you see for the auto industry when some EU member states are stricter while others are less strict in enforcing emission limits?

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[6] The articles on Google are: "Europe Challenges Google, Seeing Violations of Its Antitrust Law" (http://www.nytimes.com/2015/04/16/business/international/european-union-google-antitrust-case.html?_r=0) and "Google Creates Parent Company Called Alphabet in Restructuring (http://www.wsj.com/articles/google-creates-new-company-alphabet-1439240645).

Teaching note:

> This forum is designed to help students understand the use of different risk management techniques in different scenarios. I've also used other cases, including academic fraud,[7] and the Wells Fargo Scandal[8] to show students that risk management is needed everywhere.

CONCLUSIONS

I began incorporating discussion boards in my insurance and risk management courses in fall 2014 and have since had very positive experiences. My students have become more engaged in learning and turn discussion boards into online learning communities where they help each other deepen understanding of course materials. My experience affirms the benefits of discussion boards as documented in literature, and I continue to use them in both on-ground and online courses.

It is very difficult to find ready-to-use cases specifically designed for insurance and risk management courses. This paper presents some of the discussion board forums that I designed over the past few years. Professors interested in adopting discussion boards are welcome to use my forums or modify them as they see fit.

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[7] "North Carolina Academic Fraud Went on for Years Amid Lax Oversight, Report Finds" (http://online.wsj.com/articles/report-details-academic-scandal-at-north-carolina-1413997202?KEYWORDS=academic) and "Notre Dame Holds Out Four Football Players Amid Academic Probe (http://online.wsj.com/articles/notre-dame-suspends-four-football-players-amid-academic-fraud-probe-1408137721?KEYWORDS=academic)

[8] "Timeline of the Wells Fargo Accounts Scandal" (http://abcnews.go.com/Business/timeline-wells-fargo-accounts-scandal/story?id=42231128); "At Wells Fargo, Complaints About Fraudulent Accounts Since 2005 (http://www.nytimes.com/2016/10/12/business/dealbook/at-wells-fargo-complaints-about-fraudulent-accounts-since-2005.html?_r=0); "Wells Fargo's legal mess just got worse" (http://money.cnn.com/2016/11/03/investing/wells-fargo-fake-account-sec-investigation/index.html) and "This Is How Wells Fargo Encouraged Employees to Commit Fraud" (https://newrepublic.com/article/137571/wells-fargo-encouraged-employees-commit-fraud).

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The Anatomy of an Employee Dishonesty Coverage Claim: A Risk Management Perspective

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ABSTRACT

The author was first exposed to the expert witness field on a campus visit to Indiana University as a prospective doctoral student with a Major in Insurance and Risk Management in what is now known as the Kelly School of Business. The author met with John D. Long, Ph.D., CPCU, CLU, a long-time Insurance and Risk Management Professor at Indiana University; Dr. Long shared with the author details concerning legal cases in which he had been retained as a consulting and/or testifying expert witness, and how he had applied textbook insurance and risk management concepts to these legal cases so as to make arguments that supported a client's position; in some cases, the client was an insurance carrier or insurance agent/broker, while in other cases, the client was a policyholder. Immediately, the author was intrigued and excited, and a decision was made to enroll at Indiana University, and study insurance and risk management concepts under the guidance of Dr. Long. While a student at Indiana University from 1983 to 1990, the author continued to have lively discussions with Dr. Long of the sort referenced above.

For whatever reason, only a small subset of insurance and risk management faculty are actively engaged in the expert witness field. With respect to those IRM faculty members who are actively engaged in the expert witness field, most of these faculty members specialize in breach of contract, bad faith, and agent/broker errors and omissions cases. In examining all of the back issues of the Journal of Risk Education, the author did not find a single, case study or publication that presented an illustrative breach of contract/bad faith legal case concerning (1) how an IRM professor can apply fundamental insurance and risk management concepts to a set of facts so as to make arguments that support a client's position, and (2) how an IRM professor can present the respective legal case in the classroom in such a way that students can envision how fundamental insurance and risk management concepts can be applied so as to address issues in the respective legal case that are paramount to resolution of the legal case. This article presents an illustrative breach of contract/bad faith legal case in which the author was retained as a testifying expert witness by the policyholder. Because the client was a policyholder, a risk management perspective is presented; in other words, the focus is on the maximization of insurance coverage. Bad faith is an important issue because it can create leverage that helps the policyholder to negotiate a larger settlement with the insurance carrier. Thus, both of the learning goals referenced above are achieved by examining the application of insurance and risk management concepts to an actual, complex legal case in which there was a dispute concerning the existence of coverage; the insurance and risk management concepts are used to make arguments for insurance coverage, and the application of bad faith concepts is illustrated.

More broadly, the intent of this article is to encourage more IRM professors to become engaged in the expert witness field. As discussed in a Guest Editorial that appeared in the April 2008 issue of the CPCU eJournal, (see Warfel, William J., "Guest Editorial: Expert Witness Consulting and Its Relationship to Research, Service, and Teaching," CPCU eJournal, April 2008, pp. 1-3), serving as an expert witness furthers the university's goal of creating and sharing knowledge with society. Expert witness engagements have the potential to enhance an IRM professor's research, service, and teaching productivity. This article specifically illustrates how an expert witness engagement can enhance the learning process in the classroom.

Illustrative Case: The College Network (TCN) V. Cincinnati Insurance Company –

A Description of the Loss

A Commission Coordinator at TCN was responsible for the preparation, issuance, and mailing of TCN commission checks to TCN sales representatives throughout the U.S. for commissions paid on specific sales of TCN educational products and services. In some cases, when a sales representative consummated a sale, the customer paid the entire amount due immediately; in other cases, when a sales representative consummated a sale, the customer did not immediately pay the entire amount due, but instead opted for an installment payment plan. Assuming that the customer (1) had opted for an installment payment plan, and (2) a default occurred at some point subsequent to consummation of the sale, the commission that previously had been paid to the sales representative was recaptured in most instances. When the commission previously paid to the sales representative was recaptured, the recaptured amount would be deducted from the amount of commissions otherwise owed to the sales representative. At the end of each pay period (i.e., commission checks were sent to sales representatives every two weeks), a commission statement would be sent to each sales representative, along with an enclosed check; this commission statement would identify (1) the commissions that had been generated during that pay period, and (2) the commissions that had been recaptured during that pay period. Most importantly, the accounting system in place accurately calculated both (1) commissions that had been generated by each sales representative in a given pay period, and (2) commissions that had been recaptured for each sales representative in a given pay period. Commission statements automatically generated by the accounting system identified correctly both commissions and recaptured commissions, along with the correct amount owed to a sales representative.

Unfortunately, after an accurate commission statement was automatically generated by the accounting system, the Commission Coordinator would then override the amount to be printed on the check payable to a sales representative. In a minority of cases, the Commission Coordinator would manually "hard-code" a check and increase the amount on the check to include not only the correct amount owed, but also the amount identified on the commission statement as recaptured commissions. In the majority of cases, the Commission Coordinator would manually "hard-code" a check and increase the amount on the check to include not only the correct amount owed, but also an additional amount that was arbitrarily determined by the Commission Coordinator.

From 2006-2009, the total amount of additional, unauthorized payments was $431,733.69. TCN discovered the unauthorized payments on about April 30, 2009, at which time TCN terminated the Commission Coordinator, contacted the Federal Bureau of Investigation (FBI), and put Cincinnati Insurance Company on notice of its loss. In support of its insurance claim, TCN compiled data that identified eight sales representatives who had received unauthorized payments from the Commission Coordinator. For each of these eight, respective sales representatives, both the (1) recaptured

commissions that should have been withheld, and (2) the additional amounts that were arbitrarily determined by the Commission Coordinator, were identified for the years 2006, 2007, 2008, and 2009, respectively. Along with this summary data for each of the eight sales representatives, in support of the insurance claim, TCN included transactional data reflected in the summary data that identified each instance where an unauthorized payment was made by the Commission Coordinator to a sales representative.

Several of the commission statements sent to the sales representatives included handwritten personal notes authored by the Commission Coordinator that referenced the additional amounts included in the commission checks which were not authorized; these handwritten personal notes reflect the manifest intent of the Commission Coordinator in making the unauthorized payments. Most importantly, the focus of these handwritten personal notes is not on the financial harm caused to TCN by the dishonest acts, but rather on the financial benefits bestowed on the recipients of the enclosed checks (i.e., the sales representatives), and/or the hope on the part of the Commission Coordinator that the sales representatives will provide a return favor (i.e., a financial benefit – a "kickback") to the Commission Coordinator at some point in the future. An illustrative example that evidences this manifest intent to bestow a financial benefit on someone is the personal handwritten notes contained on commission statements sent to one of the eight sales representatives ("Hi Sweetie Pie I added your chargebacks' in Shhhh – don't tell," and "Happy Easter – Sweetie Pie!! Are you sure you don't want to buy me a refrigerator??". While clearly there was a manifest intent on the part of the Commission Coordinator to bestow an unauthorized, financial benefit on someone (either a sales representative and/or the Commission Coordinator), there was sufficient evidence with respect to only one of the eight sales representatives upon which one could reasonably conclude that "kickbacks" were made to the Commission Coordinator by the sales representative in exchange for unauthorized payments; such evidence did not exist with respect to the other seven sales representatives. Concerning the single sales representative where "kickbacks" were made to the Commission Coordinator, "kickbacks" approximately equal to $30,000 were paid to the Commission Coordinator in exchange for unauthorized payments of $75,556.07. Concerning the other seven sales representatives, the unauthorized payments totaled $356,177.62 ($431,733.69 – total amount of additional unauthorized payments less $75,556.07).

Determining the Plain Meaning of the Insurance Policy Language

To assure that the insurance policy language is applied to the loss described above in a way that is consistent with the plain meaning of the policy language, the facts related to the loss must be plugged, or inserted, into the policy language through the use of parenthetical wording. Students have a tendency to not carefully read policy language, and the result is that mistakes are made in applying policy language to the facts of the loss; the use of parenthetical wording combats the tendency of students to reach conclusions concerning insurance coverage for a loss based on what he or she perceives is an equitable result, as opposed to what the plain meaning of the insurance policy dictates. Courts have consistently ruled that an insurance policy must be applied to a loss consistent with the insurance policy's plain meaning.

Declarations

The role of the Declarations is to personalize the insurance policy in relation to the loss exposure for which coverage is provided under the insurance policy. The first step, concerning coverage analysis, apart from the description of the loss for which insurance coverage is sought, is to confirm

which potential insuring agreement is applicable, that the loss fell within the time frame during which coverage was provided, that an insured sustained a loss, and the policy limit and deductible that applies to the loss.

The Crime Coverage Part Declarations page contained in the applicable Employee Dishonesty Policy indicates Employee Dishonesty Coverage is applicable with a Limit of Insurance of $500,000, and a deductible amount of $1,000; The College Network (TCN) is identified as a Named Insured, and Cincinnati Insurance Company is identified as the insurer; this coverage was in effect at the time the loss was discovered (i.e., the loss was discovered at some point between the inception and expiration dates). Given that the facts of the loss fit within the basic parameters contained, or specified, in the Declarations, the second step of coverage analysis is to confirm that the loss fits with the scope of the applicable Insuring Agreement.

Insuring Agreement

The Insuring Agreement indicates the basic thrust of coverage that is provided under the insurance policy. Concerning the loss in this legal case, the Employee Dishonesty Coverage Insuring Agreement (which was the only potentially applicable insuring agreement with respect to the loss that occurred in this case) stipulates that "[Cincinnati Insurance Company] will pay for loss [$431,733.69] of . . .Covered Property resulting directly from the Covered Cause of Loss." The loss of $431,733.69 constitutes "Covered Property" as defined in the Employee Dishonesty Coverage Form. "Covered Property" includes "Money"; "'Money' means: ... Currency, coins ...." When the Commission Coordinator sent unauthorized payments to the eight sales representatives, currency and coins were withdrawn from TCN's general operating account to cover the unauthorized payments and, thus, TCN sustained a "loss of" ... "Covered Property" – funds that were withdrawn from the general operating account that were not legitimately owed to the eight sales representatives.

"Covered Cause of Loss" is defined as "Employee Dishonesty"; "'Employee Dishonesty' ... means only dishonest acts committed by an 'employee' [the Commission Coordinator] acting alone or in collusion with other persons, except [TCN] or a partner [collusion between the Commission Coordinator and a sales representative is not required in order to invoke coverage; in at least several cases, the sales representative was not even aware of the fact that the Commission Coordinator had inappropriately increased the amount of an enclosed commission check; collusion was apparent only in the single case where the sales representative sent a "kickback" to the Commission Coordinator], with the manifest intent to: (1) Cause [TCN] to sustain loss [$431,733.69]; and also (2) Obtain financial benefit (other than salaries, commissions, fees, bonuses, promotions, awards, profit sharing, pensions or other employee benefits earned in the normal course of employment) for: (a) The 'employee' [the Commission Coordinator]; or (b) Any person [the eight sales representatives] ... intended by the 'employee' [the Commission Coordinator] to receive that benefit."

First, the Commission Coordinator qualifies as an "employee," as defined in the Employee Dishonesty Coverage Form. At the time that the dishonest acts were committed by the Commission Coordinator, the Commission Coordinator was "(1) [any natural person] ... in [TCN's] service [the Commission Coordinator was processing commission payments to sales representatives who had sold TCN products and services] ... ; (2) [any natural person] Whom [TCN] compensate[s] directly by salary, wages or commissions [the Commission Coordinator was paid a salary or wage for performing the duties associated with this position]; and (3) [any natural person] Whom [TCN] [has] the right to direct and control while performing services for [TCN] [the Commission Coordinator had a supervisor

to whom he/she reported and, therefore, he/she was under the direction and control of TCN while processing commission payments to sales representatives who had sold TCN products and services]."

Second, the Commission Coordinator committed dishonest acts when he/she made unauthorized payments to the eight sales representatives, irrespective of whether or not the Commission Coordinator made an unauthorized payment in exchange for a "kickback"; the Commission Coordinator acted alone, or in collusion with a sales representative, with the manifest intent to cause loss to TCN when he/she "hard-coded" checks payable to the eight sales representatives and increased the amounts on the commission checks to include not only the correct amounts owed for commissions on the sale of TCN products and services, but also additional amounts, thereby reducing the funds contained in TCN's general operating account and causing it to sustain a loss; the Commission Coordinator's manifest intent in increasing the amounts on the commission checks payable to the eight sales representatives to include unauthorized payments represented a scheme that was designed to loot TCN's general operating account; the personal, handwritten notes contained on some of the commission statements, referenced above in the discussion of the facts of the loss, underscore the manifest intent on the part of the Commission Coordinator to cause someone (either or both the Commission Coordinator and a sales representative) to reap a financial benefit.

Third, there must be a manifest intent to "Obtain financial benefit (other than salaries, commissions, fees, bonuses, promotions, awards, profit sharing, pensions or other employee benefits earned in the normal course of employment) for [someone] ...." The approximately $30,000 in "kickbacks" that were received by the Commission Coordinator from one of the sales representatives is a financial benefit that does not fit within the exclusionary clause referenced above and, therefore, this item is covered under the Employee Dishonesty Coverage Form. Receipt of a "kickback" by the Commission Coordinator is a financial benefit apart from the salary or wage that the Commission Coordinator received from TCN for the performance of duties identified in the job description for this position. Also, the sales representative's receipt of unauthorized payments from the Commission Coordinator in exchange for the "kickbacks" is a financial benefit apart from the commissions that this sales representative receives from TCN for the sale of TCN products and services.

Fourth, the intent of the exclusionary clause referenced above is that all employee benefits earned in the normal course of employment fit within this exclusionary clause. The absence of a comma following the term "other employee benefits" does not mean that "earned in the normal course of employment" modifies, or relates to, only "other employee benefits"; to the contrary, it modifies, or relates to, each of the items included in the list of compensation items including salaries, commissions, fees, bonuses, promotions, awards, profit sharing, and pensions. In other words, the implication that a "commission" "earned outside the normal course of employment" (the unauthorized payment included in a commission check by the Commission Coordinator) is an excluded financial benefit and is not covered under the Employee Dishonesty Coverage Form because it falls within the ambit of the exclusionary clause referenced above is simply incorrect.

Fifth, the intent of the exclusionary clause referenced above is that all employee benefits earned in the normal course of employment fit within this exclusionary clause; this exclusionary clause is not restricted to salaries, commissions, fees, bonuses, promotions, awards, profit sharing, and pensions; these items are simply illustrative examples of compensation items that fit within this exclusionary clause (hence the use of the policy language "other employee benefits"). This list of compensation items that fit within the exclusionary clause is not exhaustive; for example, tuition reimbursement to an employee for a course taken at a local university would fit within this exclusionary clause. Given the use of the phrase "other employee benefits," the implication is that the intent is that all of the items of

compensation that are listed within the exclusionary clause, including commissions, are employee benefits. Thus, for a compensation item (a commission, for example) to fit within this exclusionary clause, the recipient of this compensation item (a sales representative, for example) must in fact be an employee; if the recipient of the compensation item is an independent contractor, as opposed to an employee, the compensation item does not qualify as an employee benefit and, therefore, it does not fit within the exclusionary clause. Evidence pertaining to the insurance claim discussed in this article suggests that the eight sales representatives were independent contractors as opposed to employees. The unauthorized payments that were received by independent contractor, sales representatives which were disguised on "commission" checks do not qualify as an "employee benefit" for the purpose of application of this exclusionary clause; the unauthorized payments that were received by employee, sales representatives which were disguised on "commission" checks do qualify as an "employee benefit" for the purpose of application of this exclusionary clause (assuming that an unauthorized payment qualifies as a "commission" simply because the unauthorized payment was included in a "commission" check by the Commission Coordinator in an attempt to avoid detection).

Sixth, the intent of the exclusionary clause referenced above reflects the plain meaning of terms contained in the exclusionary clause that are not defined in the policy. In this case, the term "commission" is not defined in the policy; it must be interpreted based on its plain meaning and common usage. A commission is remuneration for the sale of a product or service; it is tied to, or derived from, the sale of a product or service; it is related to a piece of business and oftentimes is a percentage of the price of a product or service that was sold by a sales representative.   The additional amounts that were included in the checks received by the eight sales representatives were not authorized by TCN and, therefore, do not constitute remuneration for the sale of TCN products and services (i.e., these additional amounts do not qualify as commissions given the plain meaning of this term and its common usage). Simply disguising an unauthorized payment so that it ostensibly is a commission does not transform what really is an unauthorized payment into legitimate remuneration for the sale of a product or service. The receipt of unauthorized payments, irrespective of the label that is attached to the unauthorized payments by the person who committed the dishonest acts, is not an excluded financial benefit, and it is covered under the Employee Dishonesty Coverage Form because it does not fall within the ambit of the exclusionary clause referenced above. [i] Most importantly, the Employee Dishonesty Coverage Form specifically was designed to provide coverage for the exposure to loss that policyholders face in connection with the misappropriation of funds (i.e., funds that are unlawfully diverted by an employee so as to cause someone to obtain a financial benefit). When funds are unlawfully diverted by an employee, the intent usually is that someone will reap a financial benefit; as a practical matter, the intended beneficiary of the unlawful diversion of funds can reap a financial benefit only if an unauthorized payment from the policyholder's general operating account is made to this intended beneficiary; invariably, in order to avoid detection, the unauthorized payment is disguised as a legitimate payment; legitimate payments made to employees largely include checks payable to employees for compensation items such as salaries, commissions, fees, bonuses, promotions, awards, profit sharing, and pensions. Thus, when an unauthorized payment is made to an employee, it is usually labeled as one of the compensation items referenced above. To simply conclude that this unauthorized payment constitutes a compensation item received by an employee in the normal course of employment because a legitimate label was attached to it by a dishonest person attempting to escape detection as long as possible and, therefore, the exclusionary clause referenced above precludes coverage largely, although not completely, nullifies the coverage that is provided under an Employee Dishonesty Coverage Form; it is at odds with the intent of the parties to the contract.

Application of Insurance and Risk Management Concepts

Notwithstanding the plain meaning of the insurance policy in relation to the specific facts of the legal case, as discussed at length in the preceding section of this article, insurance and risk management concepts can be utilized to argue for a particular interpretation by both the insurance carrier and the policyholder. Of course, given the large financial stakes in these legal cases, attorneys representing both the plaintiff (i.e., the policyholder) and the defense (i.e., the insurance carrier) turn to both consulting and testifying expert witnesses to provide assistance in fashioning arguments that support their clients' respective coverage position; these arguments are framed in terms of application of insurance and risk management concepts to the facts of the legal case. Because IRM professors have (1) a tremendous base of knowledge relating to insurance and risk management concepts and their application to the interpretation of insurance policies, (2) extensive teaching experience, meaning that they can verbally communicate effectively in a discovery deposition conducted by opposing counsel and to a judge and jury at trial, and (3) extensive written communication skills developed and honed in drafting articles for publication, meaning that they can communicate effectively in drafting a disclosure of opinions report shared with opposing counsel and/or a court, or an Affidavit filed with the court for the purpose of supporting or opposing a Motion for Summary Judgment, for example, filed with the court by an attorney representing a party in the legal case, attorneys' and their clients' oftentimes are eager to hire an experienced IRM professor to serve as a consulting or testifying expert witness. These expert witness opportunities are financially lucrative; in a recent year, the author earned expert witness income that almost was equal to the annual salary that he received from his employer (i.e., Indiana State University). Also, over the years, a number of these cases translated into publications that appeared in professional journals and IRM trade publications and provided countless examples that were presented in the classroom for the purpose of illustrating the application of an insurance and risk management concept to a complex claim; students need to know that many claims fall in the "grey area" for which there is not a right or wrong answer from a coverage standpoint.

In this particular legal case, (1) Cincinnati Insurance Company asserted that policyholders typically are required to use appropriate means to mitigate a loss; based on a condition contained in the insurance policy (i.e., "Transfer of Your Rights of Recovery Against Others to Us"), Cincinnati Insurance Company argued that TCN had inappropriately failed to take appropriate steps to mitigate the described loss, and, thus, the coverage amount should be reduced accordingly, and (2) TCN asserted that a purpose served by an exclusion is to delete insurance coverage for a loss that is not fortuitous, or accidental from the standpoint of the policyholder, and, based on this requisite of insurability, distinguished between the sort of loss that would fall within an identified exclusionary clause, and the sort of loss that would not fall within an identified exclusionary clause – the implication, of course, being that the described loss does not fall within the identified exclusionary clause and, therefore, it is fully covered subject to the policy limit and the deductible identified in the Declarations.

The author responded to Cincinnati Insurance Company's argument referenced above (he stated that is was flawed and incorrect), and he set forth the concept that supported TCN's coverage position that the identified exclusionary clause did not preclude coverage for the described loss referenced above.

Transfer of Your Rights of Recovery Against Others to Us

This condition requires that the Named Insured (TCN) not impair the right of the insurer (Cincinnati Insurance Company) to recover money from a third party that it paid for a loss (in this legal

case, the unauthorized payments that were made by the Commission Coordinator to the eight sales representatives). This condition, however, does not negate the obligation that the insurer has to take steps to recover the money from the third party (the Commission Coordinator and the eight sales representatives). In other words, the insurer cannot shift this responsibility back to the policyholder by paying a reduced amount for the described loss, thereby eliminating an important benefit of the insurance coverage (i.e., avoid the cost and uncertainty and impracticality associated with an attempt to recoup directly from the eight sales representatives and the Commission Coordinator the unauthorized payments that were received by the eight sales representatives and which were paid by the Commission Coordinator).

As referenced above, concerning many of the commission checks received by the seven sales representatives who apparently did not send "kickbacks" to the Commission Coordinator, evidence does not exist to suggest that these sales representatives had any knowledge, or awareness, that their commission checks had been inappropriately increased by the Commission Coordinator; while some restitution was made by these seven sales representatives, and this restitution was deducted from what otherwise would have been the covered loss, full and complete restitution was not made by any of these seven sales representatives; furthermore, several of these seven sales representatives continued employment with TCN for some period of time after the loss was discovered on April 30, 2009, and, therefore, these sales representatives received authorized, legitimate commission payments that were paid by TCN subsequent to discovery of the loss for the sale of TCN products and services. With respect to the single sales representative who paid "kickbacks" to the Commission Coordinator in exchange for the unauthorized payments, this sales representative either terminated his/her employment with TCN before discovery of the loss on April 30, 2009, or alternatively this sales representative was terminated when TCN learned that he/she had paid "kickbacks" to the Commission Coordinator in exchange for unauthorized payments.

Most importantly, Cincinnati Insurance Company contended that, to the extent that authorized, legitimate commission payments were made to the seven sales representatives referenced above subsequent to discovery of the loss on April 30, 2009, the covered loss is correspondingly reduced; such is the case because none of these seven sales representatives had made full and complete restitution. In other words, Cincinnati Insurance Company contended that TCN had an obligation to withhold from a sales representative who had previously received unauthorized payments from the Commission Coordinator, authorized, legitimate commission payments that TCN had paid to such a sales representative after discovery of the loss on April 30, 2009, until such sales representative had made full and complete restitution.

There is no provision contained in the Employee Dishonesty Coverage Form that imposes such an obligation on the Named Insured; the only obligations that are imposed on the Named Insured is that the Named Insured (1) must transfer its rights of recovery against the sales representatives for any loss sustained by the Named Insured and for which the insurer has paid or settled, and (2) must also do everything necessary to secure those rights and do nothing after loss to impair them. Imposition of the obligation referenced above on the Named Insured would negate an important benefit provided under the Employee Dishonesty Coverage Form. The Named Insured purchased this insurance policy in part to avoid the cost and uncertainty and impracticality associated with an attempt to recoup directly from the sales representative the unauthorized payments that the sales representative had previously received from the Commission Coordinator. In cases of this sort, the recipient of unauthorized payments, that were small in magnitude but accumulated to a substantial amount over a period of time before the loss was detected, usually has expended the unauthorized amounts received well before the

loss ultimately is discovered. Such is the nature of the exposure to loss that is addressed by an Employee Dishonesty Coverage Form. Moreover, if TCN were to withhold authorized, legitimate commissions in an attempt to recoup previous, unauthorized payments, most, if not all, of the affected sales representatives would simply sever their employment relationship with TCN and seek alternative employment with another firm. These affected sales representatives also could file a lawsuit against TCN alleging that TCN does not have a legal basis to withhold their authorized, legitimate commissions. As referenced above, given this practical reality, the insurer assumes responsibility for recouping from the affected sales representatives the unauthorized payments. The insurer must make immediate payment for the entire loss, and then it must expend the time and resources that are required to mitigate the loss, pursuant to the "Transfer of Your Rights of Recovery Against Others to Us" provision contained in the Employee Dishonesty Coverage Form. The insurer cannot shift under any circumstances this assumed responsibility to the Named Insured.

Exclusionary Clause

With respect to the exclusionary clause referenced above, the issue arises concerning exactly what sort of loss falls within this exclusionary clause. As referenced above in this article, a key purpose for inserting an exclusion into an insurance policy is to delete coverage for an uninsurable exposure to loss. Arguably, the intent that underlies this exclusionary clause is to delete coverage only for an uninsurable exposure to loss; the custom and practice in the insurance industry is to design insurance contracts including the Employee Dishonesty Coverage Form in such a way that coverage is provided only for insurable exposures to loss. All organizations have policies and procedures to which employees must adhere in the normal course of employment. Human nature is such that a minority of employees inevitably will deviate from these policies and procedures so that an item of compensation earned in the normal course of employment can be thereby enhanced; payment of enhanced compensation to an employee earned in the normal course of employment, irrespective of the kind of compensation that results directly from a deviation from policies and procedures is not fortuitous and, therefore, constitutes an uninsurable exposure to loss. The intent that underlies the exclusionary clause is to exclude this sort of loss. In this way, the cost of insurance is economically feasible (i.e., in the event that an inevitable, or certain, loss were insured, the cost of insurance would be prohibitive; the cost of insurance is economically feasible only if the likelihood of loss is relatively small – well less than 100 percent).

For example, Jersey Mikes (an organization in the business of selling gourmet sandwiches) may create an incentive compensation, or bonus, plan to reward employees who sell a new type of sandwich that was just added to the menu; the short-term goal is to make customers aware of this new type of sandwich, and, thus, Jersey Mikes needs the cooperation of its employees in terms of the encouragement of customers to try the new sandwich. A bonus must be given to an employee who is successful in persuading a customer to try the new sandwich. If an employee of Jersey Mikes sells a sandwich to a customer other than the new type of sandwich, but "rings up" the sale of this sandwich as a sale of the new type of sandwich in order to receive an unauthorized, bonus payment, this bonus payment clearly was earned in the normal course of employment (albeit the employee did deviate from policies and procedures which were adopted by Jersey Mikes; this financial benefit that was obtained by the employee fits within the exclusionary clause and, therefore, coverage is not invoked under the Employee Dishonesty Coverage Form. This sort of case clearly is distinguishable from the sort of case that invokes coverage under the Employee Dishonesty Coverage Form. In the Jersey Mikes example, the additional compensation was received by "ringing up" the sale as a sale of the new type of sandwich when it really was the sale of the old type of sandwich; most importantly, there was a legitimate business transaction

to which the additional compensation was inextricably tied (i.e., a sandwich was sold, and Jersey Mikes is in the business of selling sandwiches).[ii]

In contrast, concerning the insurance claim discussed in this article, the additional compensation was received by the seven sales representatives as the result of the dishonest acts of the Commission Coordinator. Most importantly, this additional compensation was not inextricably tied to a legitimate business transaction that furthered the interest of TCN (i.e., this additional compensation did not result from the sale of an educational product or service, and TCN is in the business of selling educational products and services). Cincinnati Insurance Company's failure to distinguish between these two sorts of cases is an attempt to "muddy the waters"; coverage clearly is applicable under the Employee Dishonesty Coverage Form with respect to that portion of TCN's net loss incurred that is related to the financial benefit that the Commission Coordinator bestowed on the seven sales representatives through his/her dishonest acts (i.e., the unauthorized payments that were retained by the seven sales representatives ($401,733.69)).

Identification and Assessment of Bad Faith Issues

When a dispute occurs between a policyholder and an insurer concerning insurance coverage and litigation ensues in which the plaintiff (i.e., the policyholder) alleges that the insurer committed a breach in either denying the insurance claim completely, or alternatively the insurer paid less than what the plaintiff believes the insurer owes under the insurance contract, in the vast majority of cases, the plaintiff also alleges that the insurer acted in bad faith in terms of how it responded to, or handled, the plaintiff's insurance claim. Students should (1) understand from the perspective of the plaintiff the purpose that is served by making an allegation of bad faith, and (2) be able to evaluate an insurer's response to an insurance claim, or its handling of an insurance claim, such that potential bad faith issues can be identified and assessed. Also, when an IRM professor is retained as a breach of contract consulting or testifying expert witness, the attorney, particularly a plaintiff's attorney, oftentimes will request that the IRM professor evaluate the insurer's response to the described loss. In other words, the plaintiff's attorney wants the IRM professor to evaluate critically how the insurer handled the claim, and find examples of affirmative insurer conduct, or lack of affirmative insurer conduct, that support an allegation, or allegations, of bad faith. Knowledge of the jurisdictional standard of conduct against which an insurer's response to a claim is measured, or evaluated, is essential for an IRM professor who aspires to be a breach of contract consulting or testifying expert witness.

The purpose from the perspective of the plaintiff that is served by making an allegation of bad faith is primarily to create leverage that can be utilized by the plaintiff to negotiate with the insurer a larger out-of-court settlement than otherwise would be possible; potentially, a successful prosecution of bad faith allows for recovery of attorney fees and other litigation costs, consequential damages, and, in some jurisdictions, punitive damages. Invariably, when an allegation of bad faith is made by the plaintiff, the insurer's response is to file a motion for summary judgment with the court asserting that there was no bad faith on the part of the insurer as a matter of law. On the one hand, if this motion for summary judgment is granted by the court, the insurer is in a much stronger position to negotiate with the plaintiff a reduced out-of-court settlement than would otherwise be possible. On the other hand, if this motion for summary judgment is denied by the court, factual issues pertaining to the bad faith allegation must be heard and resolved by a jury, and the dynamics of the litigation change completely in favor of the plaintiff. Such is the case because juries tend to view an allegation of bad faith sympathetically in favor of the plaintiff, which means that the plaintiff is in a much stronger position to negotiate with the insurer an enhanced out-of-court settlement than would otherwise be possible. In rare cases, a court may rule that the insurer committed bad faith as a matter of law, in which case the

insurer may appeal and, at some point, the focus will turn toward an assessment of damages. Many jurisdictions including Indiana (the illustrative Employee Dishonesty Coverage case presented in this article was litigated in Indiana) have a stringent standard that applies to bad faith cases; in Indiana, the plaintiff must prove that the insurer engaged in conscious wrongdoing. A court ruling to the effect that there are factual issues related to a bad faith allegation is a huge victory for the plaintiff; oftentimes, insurance coverage cases (including the illustrative Employee Dishonesty Coverage case presented in this article) settle before the court makes a ruling on a bad faith allegation.

The Illustrative Case

Concerning the illustrative legal case presented in this article, in the final claim denial letter sent to TCN, the Associate Manager for Bond Claims at Cincinnati Insurance Company – the Senior Claim Representative to whom the TCN insurance claim was assigned reported to this Associate Manager – relied completely on the parenthetical contained in the exclusionary clause referenced above; employee dishonesty means only dishonest acts committed by an employee with the manifest intent to obtain financial benefit (other than salaries, commissions, fees, bonuses, promotions, awards, profit sharing, pensions or other employee benefits earned in the normal course of employment) for the employee or any person intended by the employee to receive that benefit.

First, as referenced above, for an item (a commission) to fit within this exclusionary clause, the recipient of this item (the sales representative) must be an employee; if the recipient of this item (the sales representative) is an independent contractor as opposed to an employee, the item (a commission) does not qualify as an employee benefit and, therefore, does not fit within this exclusionary clause. Of course, the implication is that, assuming a sales representative to whom an unauthorized payment was made is an independent contractor as opposed to an employee, the unauthorized payment would qualify as a covered loss. Most importantly, this coverage fact was acknowledged by the Associate Manager in his discovery deposition. In responding to a hypothetical in which (1) an employee at TCN made an unauthorized payment in addition to what TCN legitimately owed to a law firm for legal services, and (2) the law firm was an independent contractor (TCN did not control the details of the work activity performed by the law firm on behalf of TCN), the Associate Manager acknowledged that the unauthorized payment to the law firm constitutes a covered loss; this acknowledgment on the part of the Associate Manager is based on the distinction between an employee (in which case the unauthorized payment is an uncovered loss in the Associate Manager's view) and an independent contractor (in which case the unauthorized payment is a covered loss in the Associate Manager's view). The only reasonable inference is that, in denying TCN's claim, the Associate Manager assumed that each of the sales representatives who received unauthorized payments was an employee as opposed to an independent contractor. Indeed, in the final claim denial letter referenced above, the Associate Manager referenced "kickbacks from the overpaid employees [sales representatives] ...." Notwithstanding the fact that the applicable Employee Dishonesty Coverage Form defines the term "employee" (the Associate Manager cites this definition in the final claim denial letter referenced above) in a way that recognizes the legal distinction between an employee and an independent contractor (an employee is a natural person "whom you have the right to direct and control while performing services for you"), the Associate Manager affirmatively elected not to conduct an investigation concerning whether any of TCN's sales representatives were independent contractors as opposed to employees. The Associate Manager testified in his discovery deposition that he had summarily concluded that TCN's sales representatives were employees as opposed to independent contractors because they (1) worked for TCN, (2) sold only TCN products, and (3) received sales leads from TCN. The presence of these factors cited by the Associate Manager in his discovery deposition does not constitute a

reasonable basis in law or fact upon which to conclude that a sales representative is an employee as opposed to an independent contractor; the only criterion that matters is whether TCN controlled the details of the work activity performed on its behalf by the sales representative. Furthermore, in denying TCN's claim, the Associate Manager testified in his discovery deposition that he relied upon the coverage opinion of outside legal counsel, notwithstanding the fact that he knew that outside legal counsel did not interview any of the sales representatives for the purpose of determining whether a sales representative was an employee or an independent contractor. The only reasonable inference is that outside legal counsel had no knowledge concerning whether TCN controlled the details of the work activity performed on its behalf by its sales representatives. Finally, in conducting an investigation concerning TCN's loss, the Associate Manager testified in his discovery deposition that a CPA public accounting firm was retained for the purpose of assessing the value of TCN's claim. Even though assessing the value of TCN's claim necessarily entails a determination concerning whether each sales representative is an employee or an independent contractor (given Cincinnati Insurance Company's coverage position), the Associate Manager testified in his discovery deposition that the CPA public accounting firm was instructed to stop their work; the purported basis for this decision was that they "gave opinions that were beyond the scope that they were hired to do" (i.e., they were making inquiries concerning whether each sales representative was an employee or an independent contractor). Indeed, in an e-mail or a letter addressed to the Senior Claim Representative to whom the TCN claim was assigned, the CPA public accounting firm stated that "[t]he independent advisors [sales representatives] were not employees of [TCN]. We believe they were independent contractors. At this point in our analysis, we contacted you [Cincinnati Insurance Company] and brought this information to your [Cincinnati Insurance Company's] attention." In (1) relying on outside legal counsel's coverage opinion in reaching a coverage determination even though the Associate Manage knew that outside legal counsel did not interview any of the sales representatives, and (2) stopping the work of the CPA public accounting firm because its investigation uncovered a critical fact that did not support its decision to deny TCN's claim, Cincinnati Insurance Company failed to conduct an adequate investigation and subject the findings of such an investigation to a reasonable evaluation and review; this omission on the part of Cincinnati Insurance Company constitutes bad faith. This conduct clearly was calculated, and it was designed to result in the denial of a rightful policy benefit.

Second, the Associate Manager testified in his discovery deposition that the exclusionary clause referenced above precluded coverage for TCN because the unauthorized payments made to the sales representatives were a benefit earned in the normal course of employment. Most importantly, the Associate Manager testified that whether these unauthorized payments to the sales representatives were classified as "commissions" or "other employee benefits" had no bearing on his coverage determination. In other words, the lack of a comma following "other employee benefits" within the parenthetical was inconsequential from a coverage standpoint; the phrase "earned in the normal course of employment" relates back to not only "other employee benefits," but also to other forms of compensation that are identified in the exclusionary clause (e.g., salaries, commissions, fees). This interpretation concerning the lack of a comma comports with the analysis undertaken by an English professor that was retained by TCN as a consulting expert witness. In other words, in the view of the Associate Manager, in order for the unauthorized payments to the sales representatives to fit within the exclusionary clause, these unauthorized payments must qualify as employee benefits that were earned in the normal course of employment; Cincinnati Insurance Company acknowledged "that as the result of unauthorized alterations to TCN's Excel spreadsheets made by [the Commission Coordinator], certain TCN sales representatives received inflated commission payments that such sales representatives were not owed and that such sales representatives were not entitled to receive."; the

Associate Manager testified in his discovery deposition that he agreed with his employer's statement. Thus, in denying TCN's claim, the Associate Manager reasoned that the inflated commission payments received by the sales representatives (which were not owed to them, and to which they were not entitled to receive) were commissions earned in the normal course of employment. This sort of reasoning defies logic, and it is repugnant; it is functionally equivalent to the wrongful denial of a policy benefit and constitutes bad faith. Furthermore, the Associate Manager testified in his discovery deposition that the unauthorized payments to the sales representatives constituted "commissions" (and, therefore, fit within the exclusionary clause) because the Commission Coordinator was responsible for these unauthorized payments, notwithstanding the fact that these unauthorized payments clearly were not inextricably tied to a legitimate business transaction that furthered the interest of TCN (i.e., this additional compensation did not result from the sale of an educational product or service, and TCN is in the business of selling educational products and services). While the Associate Manager acknowledged in his discovery deposition that a commission "is an amount of money paid to a salesperson with regard to generating sales or a piece of business," he further testified that the term "commissions" also includes any payment made by an employer to an employee so long as the payment is called a "commission," and this characterization of the payment was agreed upon by the parties (the employer and the employee). Even if one assumes that simply disguising an unauthorized payment so that it ostensibly is a commission actually transforms an unauthorized payment into a commission, Cincinnati Insurance Company did not have a reasonable basis in law or fact upon which to deny TCN's claim. In an insurance coverage case in which (1) the term in the insurance contract (commissions) is not specifically defined (the term "commissions" is not specifically defined in the applicable Employee Dishonesty Coverage Form), and (2) the term in the insurance contract (commissions) is susceptible to more than one reasonable interpretation (in the view of the Associate Manager), legal precedent in the applicable jurisdiction (Indiana) compels the insurance carrier to adopt that reasonable interpretation which favors coverage (a commission "is an amount of money paid to a salesperson with regard to generating sales or a piece of business"; it does not include unauthorized payments to sales representatives that are characterized as commissions based upon the implicit agreement of the Commission Coordinator and the sales representatives) so long as Cincinnati Insurance Company supplied, or drafted, the applicable Employee Dishonesty Coverage Form (in which case Cincinnati Insurance Company foisted the terms of the insurance contract upon TCN); an insurance broker, who represents the policyholder, did not supply, or draft, the applicable Employee Dishonesty Coverage Form. The doctrine of adhesion provides that "[w]here there is ambiguity, insurance policies are to be construed strictly against the insurer, particularly where the policy excludes coverage" (American States Insurance Company V. Kiger, 662 N.E.2d 945(1996)). In short, the Associate Manager was legally compelled under Indiana insurance law to adopt the reasonable interpretation of the term "commissions" that results in coverage for TCN; his failure to do so was unreasonable and constitutes bad faith.

Third, notwithstanding the fact that the Associate Manager testified in his discovery deposition that the sole basis for the denial of TCN's claim was the parenthetical contained in the exclusionary clause referenced above, in the final claim denial letter sent to TCN, the Associate Manager asserts that coverage hinges on (1) proof that a recipient of an unauthorized payment (the sales representative) paid, or offered to pay, a "kickback" to the Commission Coordinator, and (2) knowledge on the part of the recipient (the sales representative) that he/she has received an unauthorized payment to which he/she is not entitled. Notwithstanding this assertion in the final claim denial letter, the Associate Manager acknowledged in his discovery deposition that (1) "kickbacks" are not required to invoke coverage under the applicable Employee Dishonesty Coverage Form, and (2) a sales representative need

not know that he/she has received an unauthorized payment to which he/she is not entitled to invoke coverage under the applicable Employee Dishonesty Coverage Form. Clearly, the assertions referenced above that were contained in the final claim denial letter were not made in good faith; an insurance carrier has an obligation to be truthful and forthcoming in setting forth its basis for denying a claim. This conduct clearly was calculated, and it was designed to result in the denial of a rightful policy benefit.

These sorts of arguments usually resonate with a judge and jury that are considering the bad faith issue; probably for this reason, Cincinnati Insurance Company went ahead and reached a confidential settlement with TCN before the court made a ruling concerning TCN's bad faith allegations referenced above. In other words, Cincinnati Insurance Company apparently "saw the writing on the wall" and decided to reach out to TCN and negotiate a confidential settlement in view of an impending unfavorable bad faith ruling by the court.

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[i] This sort of analysis was embraced by the court in a similar case. See Cincinnati Insurance Company V. Tuscaloosa County Parking and Transit Authority, 827 So.2d 765 (Ala. 2002).

[ii] This sort of analysis was embraced by the court in a similar case. See Auburn Ford Lincoln Mercury, Inc. V. Universal Underwriters Insurance Company, 967 F.Supp. 475 (M.D. Ala. 1997).