

CRM | CONTROL OF RISK

STUDY GUIDE

EXAM PREP AND ANSWER KEY

- **Knowledge Checks**
- **Check-Ins**
- **Self-Quizzes**
- **Sample Exam Questions**
- **Glossary of Terms**



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EDUCATION ALLIANCE

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CRM

CONTROL OF RISK

STUDY GUIDE

EXAM PREP AND ANSWER KEY

This Study Guide has been prepared to enhance your learning experience. It contains all of the Check-In questions, Knowledge Checks, and Self-Quizzes contained within the course, along with an Answer Key and Glossary. Use it as a tool to help practice and assess your knowledge of the course material, but *do not* mistake it for a comprehensive "short-cut" to preparing for the final exam.

Be sure to take a look at the Appendix that follows the Answer Key in this Study Guide. It contains valuable suggestions for test preparation and study techniques, as well as some sample exam questions and a glossary of terms.

Your path to success in passing the final exam will come from your attentiveness during the course and the effort you put into preparation.



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Tools to Assess Your Knowledge

Check-Ins, Knowledge Checks,
and Self-Quizzes by Topic

Section 1: Risk Management Concepts

What is Risk?

▶▶ Knowledge Check



Directions: Respond to the question below.



Mr. Smith operates a local bakery. Historically, his business has not offered delivery services. With the hope of increasing his revenue, he hires two part-time delivery drivers and purchases two vans. Explain the speculative risk and at least one pure risk associated with his decision.

Speculative Risk:

Pure Risk:

Key Risk Management Terms

▶▶ Knowledge Check



Directions: Respond to the questions below.

1. Phillip's company owns an old office building in Memphis, TN. The risk manager has been lobbying for retrofitting the structure to withstand potential perils. He explains that the building sits on the New Madrid Fault Line. Identify the exposure, peril, and hazard the risk manager is concerned about.

2. Callie works on a manufacturing line assembling small tools. Her wrists are often sore by the end of the day. Callie goes to a doctor, who advises her that she has a work-related injury. Callie reports this to her supervisor. Which risk management terms are applicable?

The Steps of the Risk Management Process

▶▶ Knowledge Check



Directions: Read the scenarios below. For each scenario, identify two techniques of risk control that could be used and explain how those techniques would help mitigate the exposure described in the scenario. If needed, research some possible solutions.

1. Rapids Waterpark recently unveiled a new water slide. Over the course of the next few months, several patrons of the park were injured when riding the new slide.

2. ABC Software Company has been the target of phishing and attempted ransomware attacks. They are worried that a bad actor will gain access to their software code and servers and demand a ransom payment.

3. Austin Antiques refinishes and restores antique furniture. Once they complete their process, they ship the finished product to the customer. They currently use their own delivery fleet. After several bad traffic accidents, they are concerned about safety issues.

▶▶ Knowledge Check



Nancy is the risk manager at Risk and Insurance University and is conducting her annual review of the risk management program throughout the day. State which step in the risk management process is being executed.

1. Nancy's first meeting of the day includes the university's insurance broker and chief financial officer as various insurance policies and retention options are reviewed.

2. Before lunch, Nancy tours the campus along with building managers, maintenance professionals, and grounds keepers to ensure that various safety protocols are being followed and all safety mechanisms are functioning properly.

The Impacts of an Effective Risk Management Program

Check-In



Directions: Read the paragraph below and respond to the question.

How could an effective risk management program been used at Wilson's Widgets to address the potential losses for cyber exposures such as those detailed in the scenario?

▶▶ Knowledge Check



Provide an example of current events where a miscalculation or inaction on the part of an organization resulted in damage to its reputation—from which the organization might or might not have recovered.

Total Cost of Risk (TCOR)

▶▶ Knowledge Check



Lucy is the risk manager for Pinnacle Products. She is reviewing a TCOR report prepared by the risk management intern. Lucy is concerned that the intern may not have a good understanding of the elements of TCOR. Which of the items in the report below support Lucy's concern?

- \$300,000 – insurance premiums for all lines of coverage
- \$20,000 – repair of office equipment damaged by an employee's negligence
- \$55,000 – settlement of a general liability claim paid by the insurer and billed back to the insured
- \$10,000 – safety consultant hired to perform physical inspections at each of the locations
- \$4,000 – the recovery of damage to a company-owned vehicle from a negligent driver's insurer
- \$65,000 – salary of the Director of Marketing, including her benefits
- \$15,000 – overtime paid to an employee who covered for another employee who was out of work while recovering from a work-related accident

Section 1 Self-Quiz

Directions: Respond to the questions below.

1. One example of an industry that is basically immune to risk is the restaurant industry.

True

False

2. Which one of the following statements is correct?

- ☐ Chemicals Inc. frequently ships toxic chemicals. This is a speculative risk.
- ☐ Jeremiah purchases stock in a new company. This is a speculative risk
- ☐ A restaurant opens a new location to increase sales. This is a pure risk.
- ☐ A store launches a loyalty program to improve customer retention. This is a pure risk.

3. Paul is a long-time employee of Stonework Masonry. After decades of lifting heavy bricks, he has developed two herniated discs in his spine. This is an example of an

_____.

- ☐ incident
- ☐ accident
- ☐ occurrence
- ☐ incident that became an accident

4. An insurance carrier tracks the total dollar amount it paid in claims after an unusually severe hurricane season. They are calculating the _____ of their losses.

Frequency

Severity

Section 1: Risk Management Concepts

Directions: Use the word bank to complete questions 5-10.

loss	exposure	expected losses	peril	claim
	hazard	risk-taking ability	risk appetite	

1. The projection of the frequency or severity of losses based on loss history is the _____.
2. A(n) _____ is a factor that increases the likelihood that a loss will occur.
3. Fires, lightning, riots, and automobile accidents are all examples of _____.
4. A graphics design firm recently had to pay a legal settlement due to copyright infringement. This is an example of a(n) _____.
5. A chemical manufacturing company routinely handles hazardous chemicals. This is an example of a(n) _____.
6. _____ refers to a company's willingness to accept a risk, whereas _____ refers to the organization's financial capacity for assuming that risk.
7. Which answer below defines any conscious action or inaction to minimize (at optimal cost) the probability, frequency, or severity of loss?
 - ☐ Risk Control
 - ☐ Risk Analysis
 - ☐ Risk Administration
 - ☐ Risk Financing
 - ☐ Risk Identification

Section 1: Risk Management Concepts

8. A company recently decided to invest in enhanced cybersecurity measures to protect its data and servers from ransomware attacks. Which technique of risk control did the company employ?
- ☐ Reduction
 - ☐ Transfer
 - ☐ Avoidance
 - ☐ Prevention
9. Which of the following statements describe a benefit(s) of an effective risk management program? **(Select all that apply.)**
- ☐ Improved quality, processes, and technology
 - ☐ Improved workforce morale and productivity
 - ☐ Protected cash flow and assets
 - ☐ Increased demand for a company's products
10. A company's insured building suffers a fire loss of \$50,000. The company pays a \$2,500 deductible to activate the coverage. Under TCOR, the deductible would be categorized as follows:
- ☐ Insurance costs
 - ☐ Retained losses
 - ☐ Risk management department costs
 - ☐ Indirect costs

Section 2: Risk Control and Mitigation – Human Resources

The Purpose of Risk Control

▶▶ Knowledge Check



Directions: Review the scenario and complete the chart below

A hurricane struck Florida's Gulf Coast, causing significant damage to a five-star hotel. The hotel has a golf club, golf course, and a separate parking structure. The hotel maintains a fleet of minivans and employs drivers to shuttle guests to and from the airport.

During the storm, it was necessary to evacuate guests and employees using the shuttles, and injuries were reported. After the storm, the property required extensive repairs as a result of wind damage and flooding. Plus, water damage made it necessary to replace the hotel's fleet of golf carts and two minivans.

Knowing the extent of the damage, what risk control measures should the hotel have taken prior to the loss? Write your answers in the chart. Below the chart, explain how these measures would have benefited the hotel.

Avoidance	
Prevention	
Loss Reduction	
Segregation	
Transfer	

The Root Causes of Accidents and Injuries



Knowledge Check



Directions: Conduct your own research and comment about your findings.

Since the industrial revolution, there have been many large-scale industrial disasters. Research one of these disasters and determine if the root cause was unsafe acts or behaviors, unsafe conditions, lack of awareness or training, or an uncontrollable event.

Explain the root cause (or causes) for the event you select. Some potential choices of disasters could include:

- 2023 Ohio train derailment
- Fukushima Daiichi nuclear accident
- 2010 Deepwater Horizon oil spill
- Bhopal disaster
- Triangle Shirtwaist Factory fire

Accident Prevention

▶▶ Knowledge Check



Over the past three years, a national landscaping company has experienced an increase in the frequency of work-related accidents. They have recorded back injuries, workers falling out of trees, limbs falling on employees and vehicles, and chipper accidents. Most recently, two fatalities resulted from accidents during tree-trimming operations. Using the six-step accident prevention process you just learned, make two suggestions accident-prevention actions you could take under each step.

Eliminating the hazard	Substituting the hazard	Engineering controls
Administrative controls	Personal protective equipment	Training

Safety and Health Programs

Check-In



Richard is a welder in an equipment manufacturing facility. One day, he sees the CEO walking on the work floor without a hard hat or safety glasses. Richard promptly turns off and puts down his torch and walks over to the CEO and reminds him that he must follow the safety rules which are established for all employees. Which element of the safety program made Richard comfortable in correcting his CEO?

- ☐ Management Leadership
- ☐ Accountability, Responsibility, and Authority
- ☐ Employee Participation
- ☐ Hazard Assessment and Control

Check-In



An employee slipped and fell down a flight of stairs at work. He broke his leg and is in a cast and on crutches. The employee's office is upstairs in the building, but he has frequent meetings on the ground level. He goes to a printing and filing room multiple times per day. What available job accommodations might a risk manager provide for the employee to be able to return to work sooner?

▶▶ Knowledge Check



Directions: Read the scenario described on the left. In the right column, identify the element of a health and safety program that should be addressed, and provide a recommendation to remedy the situation.

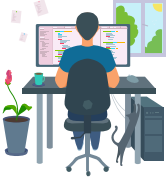
1. A construction company has established the required PPE needed to enter the job site and has posted signage at the entrance to the job site instructing workers what to wear. Management is frequently seen wearing improper PPE.	
2. An auto parts manufacturer has an established safety protocol. However, it is unclear who is responsible for enforcement. There is rarely any consequence for employees operating outside the safety guidelines.	
3. Upper management at the auto parts manufacturer, dismayed at the high rate of incidents on the job, decides to implement a new safety protocol. After walking the floor, high-level management independently comes up with a new safety protocol. Despite the new rules, employee accidents continue.	

Section 2: Risk Control and Mitigation - Human Resources

<p>4. A worker is injured during their shift at a chemical factory. They are out for weeks, but their injury has improved. The employee is unsure when they will return to work and what their role will be as they recover.</p> <p>Following the injury, the chemical factory implements a strict, zero-tolerance policy regarding the use of proper PPE. Any employee seen not wearing the appropriate equipment is reprimanded immediately. Management notices that workers are frustrated and are not sure that individuals are complying when management is not around.</p>	
<p>5. A widgets factory recently purchased a new piece of machinery to speed up production. Employees are somewhat comfortable with the new equipment, but the manager observes several employees using the machinery in unsafe ways.</p>	
<p>6. A construction company is investigating a serious accident where a worker fell from a scaffolding and became disabled. When interviewing individuals, management emphasized the serious nature of the accident and that people who are at fault will be held accountable. After interviewing several individuals, management still lacks a clear picture of how the accident occurred.</p>	
<p>7. A company has implemented a new health and safety program. So far, they have noticed a reduction in accidents but want to use a metric to compare their rate of accidents to other similar workplaces.</p>	

Ergonomics

▶▶ Knowledge Check



Louisa owns a small travel agency. During the COVID health emergency, all her employees were allowed to work from home. After a couple of months, several employees were complaining of arm and shoulder discomfort. Describe some steps that Louisa could take to determine causes and some control measures she could put into place for her telecommuting staff.



Manual Material Handling

▶▶ Knowledge Check

Robert's Fine Seafoods is a luxury restaurant. They receive multiple shipments daily of fresh seafood at the loading dock located about 50 feet from their walk-in fridge. The average weight of the shipments is 25-50 pounds. Employees must bend down to floor level to pick up the boxes and place them on shelves in the walk-in fridge.

List three risk control measures the restaurant could take to reduce the likelihood of an employee injury.



Substance Abuse in the Workplace

▶▶ Knowledge Check



You are a supervisor in a warehouse. Your employees fulfill customer orders and prepare them for shipping. One of your employees recently suffered a back strain due to the nature of his job responsibilities. His physician has returned him to work with no restrictions and a prescription for a powerful pain medication. You are concerned about his fitness for work while taking the prescribed medicine. What are some steps you can take?

Workplace Violence

▶▶ Knowledge Check



A gas station in a neighborhood with increasing crime rates is worried about violence toward its employees. They have already implemented physical controls (video surveillance cameras, a bullet-proof panel between the cashier and customers at the check stand, and an under-the-counter button that will trigger a silent alarm) to control the risk of workplace violence. Explain three other risk control measures that could be used to improve the safety of employees at the gas station.

Section 2 Self-Quiz

Directions: Select the best answer for each of the following questions.

1. Why is it important to involve all members of an organization in the risk control process?
 - ☐ Lack of employee involvement in a safety program can upset shareholders.
 - ☐ Employee involvement in safety decisions is a legal requirement.
 - ☐ Individual employees are needed to help identify unsafe behaviors and hazards.
 - ☐ Employees should be involved only because their involvement boosts workplace morale.
2. Cruz is under high pressure to meet a production quota. He is well-trained in using machine guards but decides to remove his machine guard so he can work more quickly. His hand slips and is crushed in the machine. What is the root cause of this accident?
(Select all that apply).
 - ☐ Unsafe acts or behaviors
 - ☐ Lack of training
 - ☐ Unsafe conditions
 - ☐ Uncontrollable events
3. A public swimming pool keeps highly corrosive and dangerous chemicals in a shed. What would be the **best** way to prevent an accident stemming from unauthorized access to the chemicals?
 - ☐ Use engineering controls such as posting a “keep out” sign warning the public not to enter the shed.
 - ☐ Eliminate the hazard by locking the shed and only allowing management access to the key.
 - ☐ Provide personal protective equipment in the shed next to the hazardous chemicals.
 - ☐ Train employees, advising them to make sure no one enters the shed.
4. A factory has purchased a new machine that will boost production by 20%. Management and supervisors are concerned with the risk of injury arising from the new protocols required to use the machine. What would be the best way of preventing an accident with the new machine?
 - ☐ Eliminate the hazard entirely by not using the new machine.
 - ☐ Provide mandatory safety training to all employees on how to use the machine.
 - ☐ Reduce the use of PPE so employees can work quickly with the new machine.
 - ☐ Post a sign advising employees that they are about to use a new machine.

Section 2: Risk Control and Mitigation - Human Resources

5. XYZ Asphaltting has created a safety committee comprised of employees. This is an example of the _____ element of an effective safety and health program.
- ☐ Management Leadership
 - ☐ Accountability, Responsibility, and Authority
 - ☐ Employee Participation and Involvement
 - ☐ Hazard Assessment and Control
6. Which of the following is an example of appropriate interview techniques following an accident?
- ☐ A manager sits down with the employee and tells them their job depends on accurately answering interview questions.
 - ☐ The safety committee waits a week before conducting interviews so they can write clear interview protocols.
 - ☐ The manager asks all employees involved in an incident to send a two-sentence summary of the accident.
 - ☐ A manager lets the employee know that the purpose of the interview is to improve safety, not to assign blame.
7. Which of the following are examples of ergonomic risks? **(Select all that apply.)**
- ☐ Repetitive tasks
 - ☐ Excessive force
 - ☐ Neutral temperatures
 - ☐ Working with valuable products
8. Polly Factory Parts has one worker who uses a stamping machine on finished products. To stamp the product, the employee pulls down a lever. The employee does this all day. How could the factory reduce the risk of shoulder injury?
- ☐ Reduce the employee's waiting times in between pulls.
 - ☐ Automate the press and reassign the worker to another job.
 - ☐ Increase the force required to pull the lever to slow the worker down.
 - ☐ Require the worker to stand for the entirety of the shift.
9. Load weight, frequency, horizontal distance, and vertical distance are all factors in the NIOSH lifting equation. Which of the following statements regarding these factors is correct?
- ☐ Frequency is the only factor that impacts lift safety.
 - ☐ Increasing distance will make lifting safer.
 - ☐ Reducing any of the factors makes lifting safer.
 - ☐ Increasing frequency will make lifting safer.

Section 2: Risk Control and Mitigation - Human Resources

10. _____ is/are a mechanical aid that can be used to control risks associated with manual lifting.
- ☐ Reducing frequency
 - ☐ Lift planning
 - ☐ Weight adjustment
 - ☐ Hand trucks
11. Which of the following substance abuse risk control methods would help avoid the risk of substance abuse in the workplace?
- ☐ Substance abuse education programs
 - ☐ Post-accident drug screening
 - ☐ Pre-employment drug screening
 - ☐ Hosting the employee happy hour off-site
12. What is a potential problem stemming from an employee substance abuse policy?
- ☐ Addiction is a mental condition, so employers can be sued for using a drug test to filter potential hires.
 - ☐ Employees may sue and argue that random drug screenings were not random and were discriminatory.
 - ☐ Employers may lose access to federal funding if they enact substance abuse programs that involve random drug screening.
 - ☐ Enacting substance abuse programs generally increases workers compensation premiums.
13. Which of the following would be an example of an administrative control to prevent employee violence?
- ☐ A pawn store installs bars on the outsides of their windows.
 - ☐ An employer conducts background checks on all employees.
 - ☐ An employer writes a zero-tolerance policy for workplace violence.
 - ☐ A retailer provides training on how to respond to violent customers.

Section 2: Risk Control and Mitigation - Human Resources

Section 3: Risk Control and Mitigation – Property and Liability

Employment Practices Liability Exposures



Knowledge Check



Complete the chart below. In the left column, list the six types of employment practices exposures. In the right column, explain potential risk control methods that could be used to address those exposures.

1. _____	_____
2. _____	_____
3. _____	_____
4. _____	_____
5. _____	_____
6. _____	_____

Fleet Hazards and Controls

Check-In



Directions: Answer the following question.

John, the risk manager for a trucking company, is concerned with fleet risks and exposures. For each of the logical classifications of risk, provide an example of an exposure John should be concerned about.

▶▶ Knowledge Check



Directions: Read the scenario and provide some fleet controls for each category of risk control.

Siblings Produce transports fresh produce to restaurants daily. They have a delivery fleet of medium-sized trucks that make multiple scheduled stops in a city. Create some sample risk control methods that the company could use.

Sample Fleet Risk Controls	
Avoidance	
Prevention	
Reduction	
Segregation Separation Duplication	
Transfer	

Property Exposures and Hazard Control Programs

▶▶ Knowledge Check



ABC Widget Factory opens a new manufacturing plant in a previously wooded area in the Sacramento foothills of California. Part of their manufacturing process relies on vinyl chloride, an odorless, flammable gas.

1. Explain two factors affecting their property exposures to loss.

a. _____

b. _____

2. The “C” in COPE stands for _____.

Give two examples related to this letter of the acronym that would reduce ABC Widget Factory’s exposure to loss.

a. _____

b. _____

Give one example that would increase their exposure to loss.

a. _____

3. The “P” in COPE stands for _____.

Give three examples related to this letter of the acronym that ABC Widget Factory could employ.

a. _____

b. _____

c. _____

Cyber Risk Exposures

Check-In



Directions: Match the activity in the left column to the type of cyber risk in the right column. Note, the terms on the left are used more than once.

A. First-Party B. Third-Party	_____	After suspicious activity on their network, a company assumes they may have suffered a data breach. The company hires a forensics investigator.
	_____	A company hires a web designer to rebuild their website. The web designer fails to secure permission to use several images they included on the website.
	_____	An E-commerce website suffers a data breach. As per state regulations, they must notify consumers and offer identity theft monitoring services.
	_____	A company based in the U.S. conducts most of its online business in the EU. They have access to confidential client information.
	_____	A nurse mistakenly sends a patient’s medical record to the wrong individual.

▶▶ Knowledge Check



Directions: Read the scenario below and explain your response.



Ned owns a comic book store in the revitalized downtown section of his city. While meeting with Ned to discuss his insurance coverage, you discover he is also the largest comic book dealer on the internet, selling his comic books on an international sales platform. While Ned's local sales are lackluster, his e-commerce sales are lucrative.

What cyber exposures does Ned have? What cyber risk control measures could Ned potentially implement?

Contractual Risk Transfer

▶▶ Knowledge Check



Directions: Identify and explain the results of the contractual risk transfer in the following scenario:



Wilson Designs hires an information technology company, ABC IT, to upgrade its data management system. The contract contains a mutual waiver of subrogation. One of ABC IT's employees is walking across Wilson's office when he trips over a rip in the carpet and breaks his leg. The ABC IT employee files a workers compensation claim. The following week, one of Wilson's own employees breaks his arm when he trips over tools that an ABC IT employee left on the floor. How will the waiver of subrogation impact ABC IT's and Wilson Designs' insurance carriers?

Section 3 Self-Quiz

Directions: Respond to the questions below.

1. Which one of the following is an example of a “disparate impact?”
 - ☐ An employer requires a pre-employment written test. An analysis of the data shows that mostly non-Caucasian candidates fail the test.
 - ☐ An employee talks about his husband in the workplace. A manager decides to fire that employee for his sexual orientation.
 - ☐ An interviewer asks a prospective employee where he is from. On discovering the employee is from Pakistan, the interviewer rejects the employee’s application.
 - ☐ A large consulting firm refuses to provide accommodation to an employee who has recently become wheelchair-bound.

2. Which one of the following would most likely be considered an example of sexual harassment?
 - ☐ A male employee invites a female employee to an informal happy hour.
 - ☐ Two coworkers at the same seniority level have a consensual relationship.
 - ☐ An employee made some off-color, sexually-oriented jokes at a holiday party.
 - ☐ A boss solicits her employee for a date in exchange for additional time off.

3. Which are appropriate risk control measures for employment practices liability exposures? **Select all that apply.**
 - ☐ Train interviewers to avoid sensitive topics like race and focus on a candidate’s qualifications during an interview.
 - ☐ Involuntarily reduce the hours of an individual complaining about sexual harassment so they can feel more comfortable.
 - ☐ Remove the names and addresses of prospective employees when sending resumes to a hiring committee.
 - ☐ Subject employees injured in a workplace accident to a performance improvement plan and increased scrutiny.

Section 3: Risk Control and Mitigation - Property and Liability

4. Match the hazards described in the right column to their corresponding risk category shown on the left.

A. Property B. Liability C. Human Resources D. Net Income	_____ Severe tornado weather grounds most of a shipping company's air freight fleet but causes no actual damage.
	_____ Lightning strikes Peter's house and "fries" his computer.
	_____ An employee of a trucking company had a stroke and collapsed in the warehouse.
	_____ An employee of a delivery company is delivering his load to Tom's shoe store and strikes a customer with the hand truck.

5. Your client complains that their truckers have been in numerous accidents due to their own aggressive driving. Which risk control measure would most directly address this concern?
- ☐ Use "How am I driving?" signage on all vehicles.
- ☐ Ensure all drivers have valid licensing.
- ☐ Have GPS tracking of all vehicles.
- ☐ Increase limits on the business auto policy.
6. In 2013, a fire began at a fertilizer distribution company. The fire reached the ammonium nitrate, resulting in a large explosion. The _____ was the peril; the _____ was the hazard.
- ☐ fertilizer distribution; explosion
- ☐ ammonium nitrate; fire
- ☐ fire; ammonium nitrate
- ☐ explosion; fire
7. Which risk control measure could the fertilizer company have implemented to reduce or eliminate the hazard? **Select all that apply.**
- ☐ Stop the use of ammonium nitrate in the production of fertilizer.
- ☐ Enhance the fire mitigation systems and store the ammonium nitrate in a separate building.
- ☐ Work with local fire brigades to ensure rapid response to a fire incident.
- ☐ Provide training to employees to correctly identify any safety hazards.

Section 3: Risk Control and Mitigation - Property and Liability

8. A company could reduce its maximum possible loss from fire by _____.

- ☐ installing new fire mitigation systems
- ☐ relocating its operations to an area with a better-funded fire department
- ☐ separating its operations into buildings located in three different states
- ☐ purchasing a state-of-the-art fire alarm system

9. A graphics design and website hosting firm based in the United States offers a service where they design and host a client's website. They work with clients across the globe. One of their largest clients is an online music equipment rental service.

Read the statements below regarding the client's cyber risk exposures and determine if the statements are true or false.

- a) Data storage and collecting private client information are significant cyber risk exposures for the company.

True

False

- b) The company could be held liable if one of its client's websites is hacked and used to spread computer viruses.

True

False

- c) Since the company is chiefly based in the United States, they are only exposed to regulatory issues stemming from US statutes.

True

False

10. A company has instituted a new cybersecurity protocol that requires employees to enter a code sent to their work cell phone before logging into their work accounts. This is an example of _____.

- ☐ zero trust architecture
- ☐ multifactor authentication
- ☐ privileged access management
- ☐ an incident response plan

11. A natural gas distributor targeted in a ransomware attack is unable to distribute gas to homes. During the crisis, the company loses income. This is an example of a _____.

first-party cyber risk

third-party cyber liability risk

12. A healthcare company is hacked. The private health information of thousands of companies is presumably compromised, and a lawsuit occurs. This is an example of _____.

first-party cyber risk

third-party cyber liability risk

Section 3: Risk Control and Mitigation - Property and Liability

13. Match the scenario on the right to the corresponding type of contractual risk transfer employed shown on the left.

<p>A. Intermediate hold harmless agreement</p> <p>B. Exculpatory agreement.</p> <p>C. Limit of liability</p> <p>D. Broad form hold harmless agreement</p> <p>E. Waiver of subrogation</p> <p>F. Limited form hold harmless agreement</p>	<p>_____ Bob needs some electrical work done. His buddy, John, is a good handyman who volunteers to do the work for free. John is concerned that he might damage something while doing the work. Both sign an agreement that Bob will not pursue John for any damages he causes while doing the work.</p>
	<p>_____ A construction company subcontracts with a roofer. A loss occurs for which the roofer and the construction company share joint liability. Under the contract, the roofer is only responsible for their share of the liability.</p>
	<p>_____ A logistics company has entered into a contract with a client to ship \$1 million worth of electronics. The logistics company specifies in the contract that the company's liability for any loss or damage of goods in transit is limited to \$500,000.</p>
	<p>_____ A contractor is hired to perform renovations in a commercial building. The property owner agrees not to have their insurer pursue legal action against the contractor's insurer in the event of a fire due to the contractor's negligence.</p>
	<p>_____ A subcontractor signs an agreement where he is responsible for all liability without regard to fault of himself and/or the company he is contracted by.</p>
	<p>_____ A construction company subcontracts with an HVAC company. A loss occurs that both companies are jointly liable for. Under the contract, the HVAC company is responsible for their own negligence and the negligence of the HVAC company.</p>

Section 3: Risk Control and Mitigation - Property and Liability

Section 4: Crisis and Disaster Planning

Defining Crises and Other Key Terms

▶▶ Knowledge Check



Directions: Respond to the following prompt.

Consider current events and provide an example of a crisis or disaster. Identify its source, and fill out the chart identifying the phases of the crisis.

Name of Event:	
Source of Crisis:	
Phases of Crisis	
Threat:	
Warning:	
Event:	
Impact:	

Crisis Management, Business Continuity, and Disaster Recovery

▶▶ Knowledge Check



Directions: Answer the questions below.

Consider the recent COVID-19 pandemic.

1. Did your organization have a plan in place that responded to the crisis?

2. What steps were taken to ensure business continuity and enhance recovery?

3. What changes were made to the plan in terms of responding to future events?

Crisis Management Goals and Principles

▶▶ Knowledge Check



Directions: Respond to the following prompts.

You are a leading consultant for a crisis management firm. One of your clients is a municipal government agency preparing a crisis management plan that responds to a chemical or bioweapon attack.

1. Provide an example of a pre-loss goal, a goal during the crisis, and a post-loss goal for the crisis management plan.

2. Describe one principle the crisis management plan should follow, and explain why that principle is important in this context.

Crisis Management

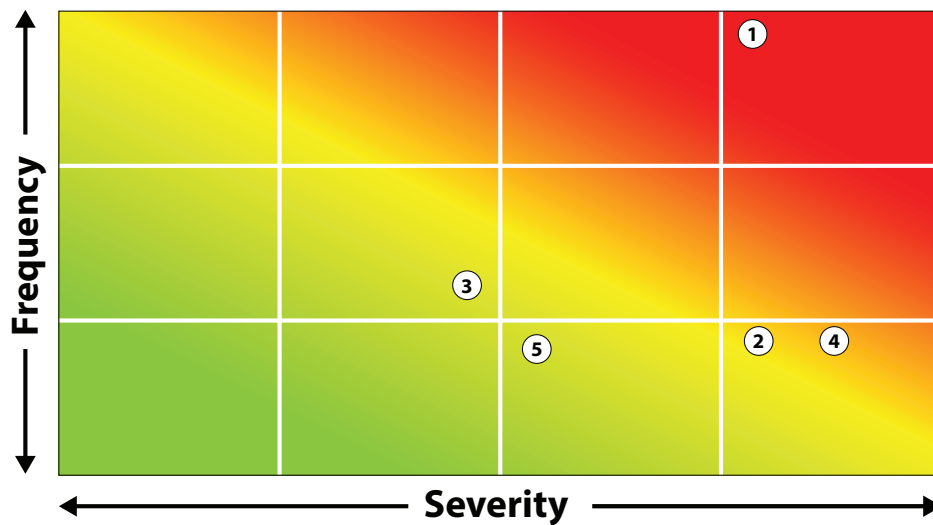
Check-In



Directions: Respond to the following prompt.

You are part of a crisis management team conducting a vulnerability/impact analysis for an oil refinery located on the coast of the Gulf of Mexico. Brainstorm at least five disasters that could reasonably impact your organization. Classify each potential disaster based on likelihood and impact using the heat map below. You are allowed to make assumptions but be prepared to explain those assumptions.

Heat Map Risk Matrix



1. _____
2. _____
3. _____
4. _____
5. _____

▶▶ Knowledge Check



Directions: Read the scenarios below and respond to the prompts.



XYZ Electronics is a leading data storage company known for its innovative products, exceptional customer service, and, most importantly, its proven track record of keeping personally identifying information (PII) and other sensitive information secure. You are part of a team developing a crisis management plan for XYZ Electronics. Identify the first two steps of the crisis management process. List at least one example of an action that XYZ Electronics should take during those steps.

Step One: _____	Actions during step one:
Step Two: _____	Actions during step two:



XYZ Electronics has encountered a severe security breach, and it is found that a third party has accessed the sensitive information of over five million individuals. In some cases, this information included Social Security numbers and payment information. Identify the next two steps of the crisis management process and explain at least one example of an action that XYZ Electronics should take during each step.

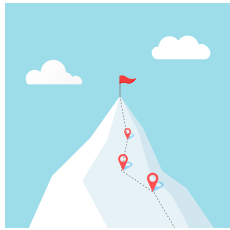
Step Three: _____	Actions during step three:
Step Four: _____	Actions during step four:

Reputation Management During a Crisis

▶▶ Knowledge Check



Directions: Respond to the following prompts.



You are the risk manager of Ricky Mountain Experiences, a survival-type outdoor climbing and trekking tour operator with an international clientele. During a recent tour, several high-profile clients died from exposure during a three-day blizzard when the guide's radio failed, and he could not call for help. Media coverage was widespread. You know that how an organization responds in the first 24 hours of a crisis sets the tone for the narrative.

- A. Provide three considerations when responding to a crisis.

- B. Message delivery is also critical following a crisis. Provide two guidelines for message delivery.

Section 4 Self-Quiz

Directions: Answer the questions below.

- Which of the following is the best example of a crisis?
 - ☐ A company's CEO plans to resign in a few months due to personal issues.
 - ☐ An organization launches a product line that returns less profit than anticipated.
 - ☐ A cyber-attack compromises sensitive customer data stored on a server.
 - ☐ A department within a company undergoes routine restructuring.
- A crisis management team has identified several potential crises that could impact their organization. Match the crises described in the right-hand column to their source in the left.

A. Industrial disaster	_____ Intentional industrial sabotage by a disgruntled employee
B. Infrastructure disaster	_____ A systems failure at the main plant leading to chemical spillage
C. Human hazard	_____ A breakdown of the primary railway the company uses to ship its chemical precursors
D. Natural hazards	_____ Severe blizzards that impact operations at the central manufacturing plant

Directions: Use the word bank to complete the sentences below.

threat	warning	event	impact
---------------	----------------	--------------	---------------

- A hurricane's predicted path is altered by meteorologists. The storm is expected to make landfall and impact a company's operations by 4:00 PM. This is an example of a(n) _____.
- Gunfire is suddenly heard in a hospital. The hospital is sent into a lockdown, and emergency services are contacted. This is an example of a(n) _____.
- A concert venue receives an anonymous email stating that an intentional bombing will occur on the premises in the coming weeks. This is an example of a(n) _____.

Section 4: Crisis and Disaster Planning

6. After a severe security and malware breach, a company must spend weeks conducting tests to ensure the security of its systems. This is an example of a(n) _____.
7. Which of the following statements defines a business continuity plan (BCP) correctly?
- ☐ The BCP outlines how a business will continue critical operations during a crisis.
 - ☐ The BCP establishes the team that defines and declares crisis events.
 - ☐ The BCP details the marketing and outreach tactics used to restore lost reputation.
 - ☐ The BCP creates a process by which key executives can be replaced after a crisis.
8. The crisis management team of a coastal real estate firm has started to plan for the increasing occurrences of severe weather and flooding. Which principle of crisis management does this decision demonstrate?
- ☐ Risk-driven
 - ☐ Integrated
 - ☐ Progressive
 - ☐ Collaborative
9. Which of the following goals is the highest priority during a crisis?
- ☐ Protecting business property
 - ☐ Protecting human life
 - ☐ Keeping media communication open
 - ☐ Preserving company reputation
10. How should communication be coordinated during a crisis?
- ☐ External communication should be bottom-up during a crisis, for example, from a factory floor worker to the top tier of management.
 - ☐ Communication should cease during a crisis. Due to the “fog of war,” transmission is unreliable and can cause issues.
 - ☐ Communication should remain flexible, and any individual in the organization should participate in that communication.
 - ☐ A central spokesperson should be identified. All internal or external information should go through this individual.
11. Why would a crisis management team use a heat map risk matrix?
- ☐ To track the geographical spread of a crisis and its impact on different regions
 - ☐ To visually identify the likelihood and severity of the impact of potential crises
 - ☐ To visualize the expected financial cost of preparing for a crisis
 - ☐ To assess the overall financial losses following a major crisis

Section 4: Crisis and Disaster Planning

12. A hospital on the Gulf Coast has a large intensive critical care unit with many patients on life support. Which of the following would be an important consideration for the hospital during the preparation phase of crisis management?
- ☐ Has a crisis management plan been created?
 - ☐ Has the crisis management team conducted a vulnerability assessment?
 - ☐ Is a backup power source needed and available?
 - ☐ Have insurance claims been filed?
13. An organization initiates a mutual aid agreement with its competitor to use facilities. These types of agreements would be activated during the _____ phase.
- ☐ planning
 - ☐ preparation
 - ☐ response
 - ☐ recovery
14. A company owns a large apartment condominium. The apartment building collapses, leaving 11 individuals dead and hundreds of others displaced. Which of the following steps should the company take to manage its reputation during the crisis? **(Select all that apply).**
- ☐ Empathize with the individuals and families directly impacted by the crisis.
 - ☐ Provide potential speculative reasons as to why the collapse occurred.
 - ☐ Explain the steps it is taking for its recovery efforts during the crisis.
 - ☐ Avoid any public questioning and provide no comment to any journalistic inquiries.
15. A large chemical fire at a factory has taken the lives of at least two workers and injured dozens. Which of the following actions should the factory management avoid?
- ☐ Acknowledging the event occurred
 - ☐ Allowing middle management to provide their own statements on the event
 - ☐ Ensuring that all reported statements are truthful and accurate
 - ☐ Providing direct assistance to affected workers and their families

Section 4: Crisis and Disaster Planning

Section 5: Claims Management

Defining Claims Management

▶▶ Knowledge Check



Directions: Answer the questions below.

1. Explain how enforcing the contractual obligations of others supports claims management and risk control.

2. XYZTech is an IT company. During a project with a long-term client, XYZTech experiences some disruptions that may have resulted in a small financial loss to the client. How might an *ex gratia* payment to the client benefit XYZTech?

The Claims Management Process

▶▶ Knowledge Check



Directions: Answer the question below.

As risk manager for Uno's Fine Foods, you are advised that multiple cases of food poisoning have been sustained by a group of young students attending an awards banquet in one of your restaurants. What steps would you take during the investigation phase of the claims management process?

Evaluation

Check-In



Directions: Respond to the questions below.

At a Lake Tahoe resort, a maintenance staff member forgot to clean the snow and ice from a parking lot. As a result, two guests slipped on the ice. Their incident reports are as follows:

Guest number 1 suffered a broken leg when she fell after stepping on the ice. Her medical bills are \$4,000, and her lost wages are \$1,000. Is the Lake Tahoe resort negligent?

Guest number 2 landed in a snowbank after slipping on the ice. He brushed off his ski clothes and continued to the chair lifts. Is the resort negligent?

▶▶ Knowledge Check



Directions: Fill in the chart below.

As the risk manager at Uno's Fine Foods, you have completed your initial investigation. Explain what steps you would take during the evaluation phase of the claims management process for each of the following topics.

Coverage	
Liability	
Damages	
Reserve	

Resolution

▶▶ Knowledge Check



Directions: Answer the question below.

You are the risk manager for Uno's Fine Foods. After investigating, you've found that several students under the age of 18 became ill after dining at Uno's restaurant. What would be an appropriate way of bringing this claim to its resolution?

Types of Claims Management Plans

Knowledge Check



Directions: Answer the question.

The CFO of Hometown Bank wants an insurance plan that provides stability and 100% external financing. What type of plan should he select? Why? What would be some disadvantages to the plan?

Claims Audits

▶▶ Knowledge Check



Directions: Answer the question below.



Shania is the risk manager for Red Rock Manufacturing. Red Rock has operations in 16 states. She is preparing a claims audit of her TPA. Shania asks them to pull a representative sampling of workers compensation files for her review. When she arrives at the TPA's offices, she is shown to an office with eight files on the desk. Her account manager tells her there are two open "lost time" files from each of the adjusters managing her workers compensation claims. Shania is surprised because she knows Red Rock has over 200 claims a year.

Explain why Shania will not be able to conduct an effective claims audit. Include an explanation of how Shania could have avoided this issue during the audit of the TPA.

Third-Party Administration (TPA) Selection

▶▶ Knowledge Check



Directions: Answer the questions below.

1. One consideration in TPA selection is the qualifications of their staff. List four additional considerations that should be carefully evaluated during the TPA selection process.

2. Describe at least two TPA staff qualifications that should be reviewed as part of selecting a TPA.

Section 5 Self-Quiz

Directions: Answer the questions below.

1. Which of the following statements about claims management are true? **(Select all that apply.)**
 - ☐ Claims management aims to resolve claims promptly and at an optimal cost.
 - ☐ Claims management only applies to self-insured organizations or those that use a TPA.
 - ☐ Strong claims management programs focus on resolving claims solely through litigation.
 - ☐ Enforcing contractual obligations during claims management can reduce the total cost of risk.
2. Why is effective claims management beneficial to a risk control program?
 - ☐ An effective claims management plan can improve an organization's customer service.
 - ☐ An effective claims management plan can reduce or mitigate damages.
 - ☐ An effective claims management plan improves communication within an organization.
 - ☐ An effective claims management plan improves an organization's communication with external stakeholders.
3. ABC Construction recently completed an office building. Throughout the construction, several specialized subcontractors were used. One of the tenants of the building is severely injured after being shocked while using an electrical outlet. The tenant sued, alleging that ABC's negligence in construction led to her injury. What question(s) should the risk manager ask during the investigation phase of managing this claim? **(Select all that apply.)**
 - ☐ Could the defective work of a subcontractor be the cause of the injury?
 - ☐ Was the injured tenant wearing rubber-soled shoes at the time of the incident?
 - ☐ Was the tenant using a defective electrical device that could have caused the shock?
 - ☐ Did the injured tenant recently move from another state?
4. A non-waiver agreement is unilateral and only protects the interests of the insurance carrier.

True

False

Section 5: Claims Management

5. An individual files a claim against Super Fun Theme Parks. The facts show that the theme park failed to train employees in safety measures, resulting in unsafe practices leading to the individual's injury. Did the park behave negligently?

Yes

No

6. The degree of liability Super Fun Theme Parks has for the accident has little impact on the total value of the claim.

True

False

7. The severity of the injury does not impact the damages the theme park can expect to pay.

True

False

8. Which one of the following definitions correctly describes the individual case method of evaluation?

- ☐ This method involves a value being assigned to a claim by an adjuster based on an investigation and past experience with that type of claim.
- ☐ This method relies on past experience for specific categories of claims (such as physical auto damage) to project reserves.
- ☐ This method is best used in claims in which a disability percentage, mortality, morbidity, and remarriage rates are established.
- ☐ This method involves an outside investigation of the claim's value and is typically used when fraud is suspected.

9. Which one of the following is an example of a pure IBNR claim?

- ☐ A grocery store patron slips and falls on spilled milk but quickly leaves because they are embarrassed. After going to their doctor, they realize they are injured but decide not to pursue a claim against the grocery store.
- ☐ A grocery store patron slips and falls on spilled milk. The incident is documented immediately, and the patron refuses to sign a release. The store attempts to settle, but ultimately, the patron pursues litigation against the company.
- ☐ A grocery store patron slips and falls on spilled milk. The manager immediately documents the incident. The patron ultimately signs a release after the company makes an *ex gratia* payment.
- ☐ A grocery store patron slips and falls on spilled milk but quickly leaves because they are embarrassed. Six months later, a doctor tells them they have three slipped disks from the fall. A year later, they file a suit against the grocery store.

Section 5: Claims Management

10. Which one of the following best illustrates why alternative dispute resolution (ADR) could be preferable to traditional litigation?
- ☐ ADR provides an opportunity for public exposure and media coverage, ensuring a swift resolution to a dispute.
 - ☐ ADR offers a structured and formal legal process, ensuring the involvement of multiple judges for unbiased decision-making.
 - ☐ ADR typically results in lower costs and potentially faster resolution than traditional litigation.
 - ☐ ADR allows for the appeal to higher courts, offering parties a chance to challenge decisions they disagree with.
11. Which of the following statements about settlements are true? **(Select all that apply.)**
- ☐ Structured settlements can avoid the issue of the claimant squandering the settlement due to inexperience in money management.
 - ☐ A lump sum payment is preferable for an organization since it can save more money to invest in other assets in the long run.
 - ☐ Lump sum payments generate interest income, which is taxable. This can contribute to the claimant's financial drain.
 - ☐ Structured settlements violate an attorney's fiduciary obligations to the claimant since they secure less money in the short term for the client.
12. The right-hand column describes types of organizations. Based on its need, match each organization to the type of claims management plan it would most likely benefit from.

A. Fully Insured B. Self-Administered C. Third-Party Administered	_____ A company wants complete control over its settlement procedures and wants to use its own in-house counsel for all claims-related matters.
	_____ A company wants more input on its own risks but lacks the resources and financial throughput to manage its own claims entirely.
	_____ A small start-up wants to purchase a stable and externally financed insurance plan. The goal is to be able to budget based on an annual premium.

Section 5: Claims Management

13. Which of the following are components of a claims audit of a TPA? **(Select all that apply.)**
- ☐ Financial integrity
 - ☐ Claims technical work product
 - ☐ Marketing practices
 - ☐ Reserving practices
14. After an audit, an organization finds that its TPA has repeatedly failed to pursue subrogation and has also allowed claims to go to litigation when resolution was possible. These audit findings indicate issues with:
- ☐ Claims payment
 - ☐ Claims handling
 - ☐ Procedural issues
 - ☐ Documentation issues
15. Which contractual considerations should a risk manager make when selecting a TPA?
- ☐ Does the TPA specify in the service agreement that they will indemnify the organization when the TPA is negligent?
 - ☐ Is the TPA's size appropriate for the organization, and is the TPA's management readily available?
 - ☐ Does the TPA have accurate promotional materials on its website?
 - ☐ Does the TPA allow for flexibility in account handling, or does it use a cookie-cutter approach?
16. A risk manager is working with a law firm. Why would it be in the risk manager's interests to clearly define which law firm members will participate in certain legal activities?
- ☐ Doing so will be more cost-effective if experienced law firm members conduct activities like research since this will reduce the total billable hours.
 - ☐ Doing so will ensure a higher quality of casework if the organization can avoid having paralegals or junior associates perform tasks.
 - ☐ Doing so will be more cost-effective if law firm members with lower fees (like paralegals) conduct basic activities like legal research.
 - ☐ Doing so will ensure the law firm rotates lawyers between tasks frequently, ensuring that there is no burnout while working the case.

Answer Key

Section 1: Risk Management Concepts

What is Risk?

▶▶ Knowledge Check



Directions: Respond to the question below.



Mr. Smith operates a local bakery. Historically, his business has not offered delivery services. With the hope of increasing his revenue, he hires two part-time delivery drivers and purchases two vans. Explain the speculative risk and at least one pure risk associated with his decision.

Speculative Risk:

Mr. Smith made a financial investment in establishing a delivery service in the hopes of increasing his revenue, which was a speculative risk.

Pure Risk:

The company vehicles and employees pose a pure risk as they could be the cause of accidents.

Key Risk Management Terms

▶▶ Knowledge Check



Directions: Complete the questions below.

1. Phillip's company owns an old office building in Memphis, TN. The risk manager has been lobbying for retrofitting the structure to withstand potential perils. He explains that the building sits on the New Madrid Fault Line. Please identify the exposure, peril, and hazard that the risk manager is concerned about.

The exposure is the building and any occupants, the peril is earthquake, and the hazard is the fact that the building is not built to withstand an earthquake. (Also acceptable—the hazard is the location of the building on a fault line.)

2. Callie works on a manufacturing line assembling small tools. Her wrists are often sore by the end of the day. Callie goes to a doctor who advises her that she has a work-related injury. Callie reports this to her supervisor. Which risk management terms are applicable?

The injury would be considered an occurrence; this is an injury with the limitation of time removed—it occurred over time. When Callie reports the doctor's finding to her supervisor, she is presenting a workers compensation claim.

The Steps of the Risk Management Process

▶▶ Knowledge Check



Directions: Read the scenarios below. For each scenario, identify two techniques of risk control that could be used and explain how those techniques would help mitigate the exposure described in the scenario. If needed, research some possible solutions.

1. Rapids Waterpark recently unveiled a new water slide. Over the course of the next few months, several patrons of the park were injured when riding the new slide.

Rapids Waterpark could avoid the exposure by closing the water slide and replacing it with a new, safer ride. They could potentially prevent losses by making alterations to the ride to reduce the likelihood of injuries.

2. ABC Software Company has been the target of phishing and attempted ransomware attacks. They are worried that a bad actor will gain access to their software code and servers and demand payment.

ABC Software Company could duplicate their software and servers so they could continue to operate in the event of a ransomware attack. They could prevent the risk by providing training to all employees on how to recognize and handle phishing attempts/ransomware attacks.

3. Austin Antiques refinishes and restores antique furniture. Once they complete their process, they ship the finished product to the customer. They currently use their own delivery fleet. After several bad traffic accidents, they are concerned about safety issues.

Austin Antiques could transfer the risk by outsourcing shipping to another party. They could prevent the likelihood of traffic accidents by providing safety training to their current drivers. They could reduce the severity of auto accidents by speed-limiting their vehicle fleet.

▶▶ Knowledge Check



Nancy is the risk manager at Risk and Insurance University and is conducting her annual review of the risk management program throughout the day. State which step in the risk management process is being executed.

1. Nancy's first meeting of the day includes the university's insurance broker and chief financial officer as various insurance policies and retention options are reviewed.

Risk Financing

2. Before lunch, Nancy tours the campus along with building managers, maintenance professionals, and grounds keepers to ensure that various safety protocols are being followed and all safety mechanisms are functioning properly.

Risk Control

The Impacts of an Effective Risk Management Program

Check-In



Directions: Read the paragraph below and respond to the question.

How could an effective risk management program been used at Wilson's Widgets to address the potential losses for cyber exposures such as those detailed in the scenario?

An effective risk management program would have identified and analyzed the cyber exposure. Risk control techniques could include prevention such as better protection from hackers, as well as reduction such as off-site backing-up of the system. Risk financing would have been used to procure the proper insurance and the risk would have been properly administered.

▶▶ Knowledge Check



Provide an example of current events where a miscalculation or inaction on the part of an organization resulted in damage to its reputation—from which the organization might or might not have recovered.

Answers will be varied but may include items like: Volkswagen circumventing emission controls, the BP oil spill, or Target getting hacked and losing records for 40 million customers. Another example is Uber facing 56 sexual harassment claims, which later revealed minority discrimination and the existence of an unethical and hostile workplace.

Total Cost of Risk (TCOR)

▶▶ Knowledge Check



Lucy is the risk manager for Pinnacle Products. She is reviewing a TCOR report prepared by the risk management intern. Lucy is concerned that the intern may not have a good understanding of the elements of TCOR. Which of the items in the report below support Lucy's concern?

- \$300,000 – insurance premiums for all lines of coverages
- \$20,000 – repair of office equipment damaged by an employee's negligence
- \$55,000 – settlement of a general liability claim paid by the insurer and billed back to the insured
- \$10,000 – safety consultant hired to perform physical inspections at each of the locations
- \$4,000 – the recovery of damage to a company-owned vehicle from a negligent driver's insurer
- \$65,000 – salary of the Director of Marketing including her benefits
- \$15,000 - overtime paid to an employee covering for another employee who was out of work recovering from a work-related accident

The cost to repair office equipment and the salary of the Director of Marketing do not fall within the elements of TCOR. The recovery of damage to a company-owned vehicle will be a credit against the overall TCOR. Lucy is justified in her concerns.

Section 1 Self-Quiz

Directions: Respond to the questions below.

1. One example of an industry that is basically immune to risk is the restaurant industry.

True

False

There is no business in existence that is immune to risk. Attempting to avoid all risk would be akin to not starting the business in the first place.

2. Which one of the following statements is correct?

☐ Chemicals Inc. frequently ships toxic chemicals. This is a speculative risk.

☒ Jeremiah purchases stock in a new company. This is a speculative risk

☐ A restaurant opens a new location to increase sales. This is a pure risk.

☐ A store launches a loyalty program to improve customer retention. This is a pure risk.

Shipping toxic chemicals is not a speculative risk; it is a pure risk. Opening a new restaurant location or launching a loyalty program are not pure risks; both are speculative risks. Only the statement about Jeremiah is correct. Purchasing stock in a new company is a speculative risk.

3. Paul is a long-time employee of Stonework Masonry. After decades of lifting heavy bricks, he has developed two herniated discs in his spine. This is an example of an _____.

☐ incident

☐ accident

☒ occurrence

☐ incident that became an accident

The correct answer is occurrence. An occurrence does not have an immediate and observable accident. Instead, it is an extended situation leading to damages—such as back injury from repeated heavy lifting.

4. An insurance carrier tracks the total dollar amount it paid in claims after an unusually severe hurricane season. They are calculating the _____ of their losses.

Frequency

Severity

Severity describes the dollar amount of a given loss for a period of time. Frequency describes the number of losses that occurred in each period of time. This carrier is tracking the severity of losses that occurred during the hurricane season.

Section 1: Risk Management Concepts

Directions: Use the word bank to complete questions 5-10.

loss	exposure	expected losses	peril	claim
	hazard	risk-taking ability	risk appetite	

1. The projection of the frequency or severity of losses based on loss history is the expected losses.
2. A(n) hazard is a factor that increases the likelihood that a loss will occur.
3. Fires, lightning, riots, and automobile accidents are all examples of perils.
4. A graphics design firm recently had to pay a legal settlement due to copyright infringement. This is an example of a(n) loss.
5. A chemical manufacturing company routinely handles hazardous chemicals. This is an example of a(n) exposure.
6. Risk appetite refers to a company's willingness to accept a risk, whereas risk-taking ability refers to the organization's financial capacity for assuming that risk.
7. Which answer below defines any conscious action or inaction to minimize (at optimal cost) the probability, frequency, or severity of loss?
 - ☒ Risk Control
 - ☐ Risk Analysis
 - ☐ Risk Administration
 - ☐ Risk Financing
 - ☐ Risk Identification

The correct answer is Risk Control. During this step, actions are taken to attempt to reduce the frequency, severity, and unpredictability of various risks.

Section 1: Risk Management Concepts

8. A company recently decided to invest in enhanced cybersecurity measures to protect its data and servers from ransomware attacks. Which technique of risk control did the company employ?

- ☐ Reduction
- ☐ Transfer
- ☐ Avoidance
- ☒ Prevention

The decision was intended to prevent ransomware attacks. This is an example of the prevention technique.

9. Which of the following statements describe a benefit(s) of an effective risk management program? **(Select all that apply.)**

- ☒ Improved quality, processes, and technology
- ☒ Improved workforce morale and productivity
- ☒ Protected cash flow and assets
- ☐ Increased demand for a company's products

Risk management does not directly contribute to consumer demand for a company's products. All the other statements describe benefits of an effective risk management program.

10. A company's insured building suffers a fire loss of \$50,000. The company pays a \$2,500 deductible to activate the coverage. Under TCOR, the deductible would be categorized as follows:

- ☐ Insurance costs
- ☒ Retained losses
- ☐ Risk management department costs
- ☐ Indirect costs

The deductible is a retained loss since the company will likely use internal funds to pay it.

Section 2: Risk Control and Mitigation – Human Resources

The Purpose of Risk Control

▶▶ Knowledge Check



Directions: Review the scenario and complete the chart below

A hurricane struck Florida's Gulf Coast, causing significant damage to a five-star hotel. The hotel has a golf club, golf course, and separate parking structure. The hotel maintains a fleet of minivans and employs drivers to shuttle guests to and from the airport.

During the storm, it was necessary to evacuate guests and employees using the shuttles, and injuries were reported. After the storm, the property required extensive repairs as a result of wind damage and flooding. Plus, water damage made it necessary to replace the hotel's fleet of golf carts and two minivans.

Knowing the extent of the damage, what risk control measures should the hotel have taken prior to the loss? Write your answers in the chart. Below the chart, explain how these measures would have benefited the hotel.

Avoidance	The hotel could avoid offering shuttle service.
Prevention	The hotel could have constructed a sea wall between the ocean and the hotel.
Loss Reduction	The golf carts should have been stored in one of the parking garage's higher levels. The hotel could have used roofing and other building materials that are able to withstand significant wind speeds.
Segregation	The minivans should have been parked in different locations rather than together, possibly in the parking structure.
Transfer	The hotel could have contracted with a shuttle service to evacuate guests and employees.

In each of the instances above, the hotel would have reduced its exposure to claims from injured guests and employees as well as from losses due to damage to the building and vehicles.

The Root Causes of Accidents and Injuries

▶▶ Knowledge Check



Directions: Conduct your own research and comment about your findings.

Since the industrial revolution, there have been many large-scale industrial disasters. Research one of these disasters and determine if the root cause was unsafe acts or behaviors, unsafe conditions, lack of awareness or training, or an uncontrollable event.

Explain the root cause (or causes) for the event you select. Some potential choices of disasters could include:

- 2023 Ohio train derailment
- Fukushima Daiichi nuclear accident
- 2010 Deepwater Horizon oil spill
- Bhopal disaster
- Triangle Shirtwaist Factory fire

Responses will vary depending on the disaster selected.

Accident Prevention

Knowledge Check



Over the past three years, a national landscaping company has experienced an increase in the frequency of work-related accidents. They have recorded back injuries, workers falling out of trees, limbs falling on employees and vehicles, and chipper accidents. Most recently, two fatalities resulted from accidents during tree-trimming operations. Using the six-step accident prevention process you just learned, make two suggestions under each step for actions you could take.

Eliminating the Hazard	Substituting the Hazard	Engineering Controls
<ol style="list-style-type: none"> <u>1. Stop tree trimming activities.</u> <u>2. Stop using a chipper.</u> 	<ol style="list-style-type: none"> <u>1. Limit tree trimming to trees under 30 ft high.</u> <u>2. Bundle the branches and haul them away.</u> 	<ol style="list-style-type: none"> <u>1. Workers can use a lift or crane to trim trees.</u> <u>2. Use a buddy system so workers have a backup and look-out.</u>
Administrative Controls	Personal Protective Equipment	Training
<ol style="list-style-type: none"> <u>1. Have vehicle owners remove cars from under trees that are being trimmed.</u> <u>2. Rope off areas around/ under trees being trimmed.</u> 	<ol style="list-style-type: none"> <u>1. Have workers tie off or use a harness when trimming trees.</u> <u>2. Ensure hard hats are being worn.</u> 	<ol style="list-style-type: none"> <u>1. Have managers hold quick safety talks with employees before each job.</u> <u>2. Provide reminders on safe trimming activities and the proper use of the chipper.</u>

Safety and Health Programs

Check-In



Richard is a welder in an equipment manufacturing facility. One day, he sees the CEO walking on the work floor without a hard hat or safety glasses. Richard promptly turns off and puts down his torch and walks over to the CEO and reminds him that he must follow the safety rules which are established for all employees. Which element of the safety program made Richard comfortable in correcting his CEO?

- ☐ Management Leadership
- ☐ Accountability, Responsibility, and Authority
- ☒ Employee Participation
- ☐ Hazard Assessment and Control

When an organization has established a culture where all employees actively participate in the safety program, every employee becomes accountable to their coworkers for identifying unsafe acts and behaviors and seeking to correct them.

Check-In



An employee slipped and fell down a flight of stairs at work. He broke his leg and is in a cast and on crutches. The employee's office is upstairs in the building, but he has frequent meetings on the ground level. He goes to a printing and filing room multiple times per day. What available job accommodations might a risk manager provide for the employee to be able to return to work sooner?

Move the employee's office to the first floor for the time of his restrictions. Have someone stop by his office twice a day to pick up filing and deliver printing. It does not seem that telecommuting would work.

Knowledge Check



Directions: Read the scenario described on the left. In the right column, identify the element of a health and safety program that should be addressed and provide a recommendation to remedy the situation.

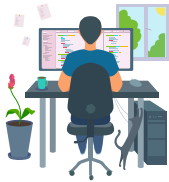
1. A construction company has established the required PPE needed to enter the job site and has posted signage at the entrance to the job site instructing workers what to wear. Management is frequently seen wearing improper PPE.	Management Leadership: Management must “walk the walk” and comply with safety regulations regarding PPE.
2. An auto parts manufacturer has an established safety protocol. However, it is unclear who is responsible for enforcement. There is rarely any consequence for employees who operate outside the safety guidelines.	Accountability, Responsibility, and Authority: Management must make it clear that all employees are expected to comply with the protocol. Employee performance appraisals can incorporate this factor as a matter of performance.
3. Upper management at the auto parts manufacturer, dismayed at the high rate of incidents on the job, decides to implement a new safety protocol. After walking the floor, high-level management independently comes up with a new safety protocol. Despite the new rules, employee accidents continue.	<p>Employee Participation and Involvement: Front-line employees are the most aware of exposures and hazards. Management should consult with them before instituting new protocols.</p> <p>Incident and Accident Reporting, Investigation, and Analysis: It is important to investigate accidents to identify the causal factors involved and to determine any changes that need to be implemented, whether they are related to employee behavior or the physical property/equipment. Analysis, when coupled with program evaluation, will reveal whether the new protocol is effective.</p>

Section 2: Risk Control and Mitigation - Human Resources

<p>4. A worker is injured during their shift at a chemical factory. They are out for weeks but their injury has improved. The employee is unsure when they will return to work and what their role will look like as they recover.</p> <p>Following the injury, the chemical factory implements a strict, zero-tolerance policy regarding the use of proper PPE. Any employee seen not wearing the appropriate equipment is reprimanded immediately. Management notices that workers are frustrated and are not sure that individuals are complying when management is not around.</p>	<p>Post-Injury Management: There should be continuous communication among the employee, the medical provider, and the claim handler so that the employee knows what to expect in terms of returning to work at transitional or modified duty until their recovery is complete, and they can resume their regular responsibilities.</p> <p>Employee Participation and Involvement: Management needs to include the employees in the decision-making process and understand that rewards are a more effective motivator than punishment. They could also determine the source of the frustration and have an open discussion about it—but not blame or punish employees for contributing their thoughts.</p>
<p>5. A widgets factory recently purchased a new piece of machinery to speed up production. Employees are somewhat comfortable with the new equipment, but the manager observes several employees using the machinery in unsafe ways.</p>	<p>Employee Information and Training: Management should meet with all the employees who will operate the machine to provide training on safe operation. In addition, they should publish proper protocols for machine operation.</p>
<p>6. A construction company is investigating a serious accident where a worker fell from scaffolding and became disabled. When interviewing individuals, management emphasized the serious nature of the accident and that people who are at fault will be held accountable. After interviewing several individuals, management still lacks a clear picture of how the accident occurred.</p>	<p>Accident Reporting Investigation and Analysis: During the investigation, the cause of the accident should be determined. Witnesses should be interviewed to determine the cause of accidents (promote safety), not to lay blame</p>
<p>7. A company has implemented a new health and safety program. So far, they have noticed a reduction in accidents but want to use a metric to compare their rate of accidents to other similar workplaces.</p>	<p>Evaluation of Program Effectiveness: The company needs to establish benchmarks, whether internal or industry-wide, as available from NLRB or other reporting agencies.</p>

Ergonomics

▶▶ Knowledge Check



Louisa owns a small travel agency. During the COVID health emergency, all her employees were allowed to work from home. After a couple of months, several employees were complaining of arm and shoulder discomfort. Describe some steps that Louisa could take to determine causes and some control measures she could put into place for her telecommuting staff.



Louisa could determine the ergonomic nature of the workplace conditions in the employees' homes. She could use Zoom and similar online platforms to record/view the employees at work and then consult with ergonomics and safety specialists to determine feasible improvements. She could also allowed employees to borrow and use office equipment.

Manual Material Handling

▶▶ Knowledge Check

Robert's Fine Seafoods is a luxury restaurant. They receive multiple shipments daily of fresh seafood at the loading dock located about 50 feet from their walk-in fridge. The average weight of the shipments is 25-50 pounds. Employees must bend down to floor level to pick up the boxes and place them on shelves in the walk-in fridge.

List three risk control measures the restaurant could take to reduce the likelihood of employee injury.

Employees could use mechanical aids such as a hand truck, or they could place pallets on the floor so that shipments could be placed on them, and then the pallets would be moved with a pallet truck. In that way, no lifting would be involved. The pallet truck would have the ability to raise the pallets to shelf-height for unloading. Deliveries could be placed on a rolling flatbed cart and wheeled to the refrigerator.



Substance Abuse in the Workplace

▶▶ Knowledge Check



You are a supervisor in a warehouse. Your employees fulfill customer orders and prepare them for shipping. One of your employees recently suffered a back strain due to the nature of his job responsibilities. His physician has returned him to work with no restrictions and a prescription for a powerful pain medication. You are concerned about his fitness for work while he is taking the prescribed medicine. What are some steps you can take?

The supervisor might do some investigation into the medication to determine the potential side effects and then contact the physician's office to discuss the actual job duties being performed. If possible, provide the employee with frequent breaks or less strenuous activities for a period of time. Confidentiality regarding the injury and any medication taken should be upheld at all times.

Workplace Violence

▶▶ Knowledge Check



A gas station in a neighborhood with increasing crime rates is worried about violence towards their employees. They have already implemented physical controls (video surveillance cameras, a bullet-proof panel between the cashier and customers at the check-stand, and an under-the-counter button that will trigger a silent alarm) to control the risk of workplace violence. Explain three other risk control measures that could be used to improve the safety of employees at the gas station.

Suggested answers could include having workers work as a team so that no one is there alone; expanding communications with local law enforcement; community outreach; changing hours of operation—after a certain time, only pay-at-the-pump and no employees on duty.

Section 2 Self-Quiz

Directions: Select the best answer for each of the following questions.

1. Why is it important to involve all members of an organization in the risk control process?
- ☐ Lack of employee involvement in a safety program can upset shareholders.
 - ☐ Employee involvement in safety decisions is a legal requirement.
 - ☒ Individual employees are needed to help identify unsafe behaviors and hazards.
 - ☐ Employees should be involved only because their involvement boosts workplace morale.

Individuals are often the best positioned to identify hazardous working conditions. Without their involvement, risk managers, supervisors, and administrative personnel may not have a complete picture of workplace risks.

2. Cruz is under high pressure to meet a production quota. He is well-trained on the use of machine guards but decides to remove his machine guard so he can work more quickly. His hand slips and is crushed in the machine. What is the root cause of this accident? (Select all that apply).
- ☒ Unsafe acts or behaviors
 - ☐ Lack of training
 - ☒ Unsafe conditions
 - ☐ Uncontrollable events

Cruz engaged in unsafe behavior. However, the high production quota and pressure from management contributed to unsafe working conditions as well.

3. A public pool keeps highly corrosive and dangerous chemicals in a shed. What would be the **best** way to prevent an accident stemming from unauthorized access to the chemicals?
- ☐ Use engineering controls such as posting a “keep out” sign warning the public not to enter the shed.
 - ☒ Eliminate the hazard by locking the shed and only allowing management access to the key.
 - ☐ Provide personal protective equipment in the shed next to the hazardous chemicals.
 - ☐ Provide training to employees advising them to make sure no one enters the shed.

An accident stemming from unauthorized access to the chemicals is best prevented through eliminating the hazard. This can be done by restricting access to the chemicals through locking the shed and only allowing management access to the key.

Section 2: Risk Control and Mitigation - Human Resources

4. A factory has purchased a new machine that will boost production by 20%. Management and supervisors are concerned with the risk of injury arising from the new protocols required to use the machine. What would be the best way of preventing an accident from the new machine?

- ☐ Eliminate the hazard entirely by not using the new machine.
- ☒ Provide mandatory safety training to all employees on how to use the machine.
- ☐ Reduce the use of PPE so employees can work quickly with the new machine.
- ☐ Post a sign advising employees that they are about to use a new machine.

Not using the machine at all is not likely practical for the factory since they have already invested in it. A training program on how to safely use the machine should be provided to all employees.

5. XYZ Asphaltting has created a safety committee comprised of employees. This is an example of the _____ element of an effective safety and health program.

- ☐ Management Leadership
- ☐ Accountability, Responsibility, and Authority
- ☒ Employee Participation and Involvement
- ☐ Hazard Assessment and Control

Employee participation can be accomplished through the creation of safety committees.

6. Which of the following is an example of appropriate interview techniques following an accident?

- ☐ A manager sits down with the employee and tells him his job depends on accurately answering interview questions.
- ☐ The safety committee waits a week before conducting interviews so they can write clear interview protocols.
- ☐ The manager asks all employees involved with an incident to send a two-sentence summary of the accident.
- ☒ A manager lets the employee know that the purpose of the interview is to improve safety, not to assign blame.

The highest priority during the interview is to clarify that the purpose is not to assign blame but to improve safety procedures.

7. Which of the following are examples of ergonomic risks? **(Select all that apply.)**

- ☒ Repetitive tasks
- ☒ Excessive force
- ☐ Neutral temperatures
- ☐ Working with valuable products

Repetitive tasks and excessive force are both examples of ergonomic risks that can lead to employee injury over time.

8. Polly Factory Parts has one worker who uses a stamping machine on finished products. To stamp the product, the employee pulls down a lever. The employee does this all day. How could the factory reduce the risk of shoulder injury?

- ☐ Reduce the employee's waiting times in between pulls.
- ☒ Automate the press and reassign the worker to another job.
- ☐ Increase the force required to pull down the lever to slow the worker down.
- ☐ Require the worker to stand for the entirety of the shift.

Automation is a good way of dealing with stress injuries resulting from repetitive tasks, if it is feasible to do so.

9. Load weight, frequency, horizontal distance, and vertical distance are all factors in the NIOSH lifting equation. Which of the following statements regarding these factors is correct?

- ☐ Frequency is the only factor that impacts lift safety.
- ☐ Increasing distance will make lifting safer.
- ☒ Reducing any of the factors makes lifting safer.
- ☐ Increasing frequency will make lifting safer.

While NIOSH reduced these factors to a mathematical formula, common sense tells the risk manager that taking any steps to reduce weight, frequency, distance, and asymmetry or any steps to increase coupling strength will serve to reduce the likelihood of accidents arising out of manual material handling.

10. _____ is/are a mechanical aid that can be used to control risks associated with manual lifting.

- ☐ Reducing frequency
- ☐ Lift planning
- ☐ Weight adjustment
- ☒ Hand trucks

Mechanical aids are tools that reduce or eliminate the risk of injury from lifting. A hand truck is a good example of a mechanical aid.

Section 2: Risk Control and Mitigation - Human Resources

11. Which of the following substance abuse risk control methods would help avoid the risk of substance abuse in the workplace?
- ☐ Substance abuse education programs
 - ☐ Post-accident drug screening
 - ☒ Pre-employment drug screening
 - ☐ Hosting the employee happy hour off-site

Pre-employment drug screening can help filter out employees who may be more likely to abuse drugs during the workday.

12. What is a potential problem stemming from an employee substance abuse policy?
- ☐ Addiction is a mental condition, so employers can be sued for using a drug test to filter potential hires.
 - ☒ Employees may sue and argue that random drug screenings were not random and were discriminatory.
 - ☐ Employers may lose access to federal funding if they enact substance abuse programs that involve random drug screening.
 - ☐ Enacting substance abuse programs generally increases workers compensation premiums.

There are legal problems from drug screenings, especially if they are not well documented. Employees, for example, may argue that they were conducted in a discriminatory manner.

13. Which of the following would be an example of an administrative control to prevent employee violence?
- ☐ A pawn store installs bars on the outside of their windows.
 - ☐ An employer conducts background checks on all employees.
 - ☒ An employer writes a zero-tolerance policy for workplace violence.
 - ☐ A retailer provides training on how to respond to violent customers.

An employer writing a zero-tolerance policy is the only example of an administrative measure. The other answers represent physical, procedural, and training measures respectively.

Section 3: Risk Control and Mitigation – Property and Liability

Employment Practices Liability Exposures

▶▶ Knowledge Check



Complete the chart below. In the left column, list the six types of employment practices exposures. In the right column, explain potential risk control methods that could be used to address those exposures.

1. <u>Violation of Statutes</u>	<p>To address employment practice exposures, risk managers should ensure that organizations create sound and consistent policies and procedures with input from human resources and legal. These practices should be communicated throughout the entirety of the organization and steps should be taken to ensure that they are consistently applied.</p> <p>The policies and procedures must be regularly reviewed for content, legal conformity, and intent, particularly as organizations change. The risk manager must assist the organization in taking reasonable care to ensure that the established policies and procedures are being followed and ensure that the organization has assigned resources to conduct a prompt, complete, and documented response to all allegations or grievances.</p>
2. <u>Discrimination</u>	
3. <u>Wrongful Termination</u>	
4. <u>Sexual Harassment</u>	
5. <u>Retaliation</u>	
6. <u>Invasion of Privacy</u>	

Fleet Hazards and Controls

Check-In



Directions: Answer the following question.

John, the risk manager for a trucking company, is concerned with fleet risks and exposures. For each of the logical classifications of risk provide an example of an exposure John should be concerned about.

Property – unsafe road conditions, cargo, damage to trucks

Liability – impaired driving, poor maintenance

Human Resources – routes and traffic, driver qualifications

Net Income – vehicle value, loss of use

Knowledge Check



Directions: Read the scenario and provide some fleet controls for each category of risk control.

Siblings Produce transports fresh produce to restaurants daily. They have a delivery fleet of medium-sized trucks that make multiple scheduled stops in a city. Create some sample risk control methods that could be used by the company.

Sample Fleet Risk Controls	
Avoidance	<u>Not hiring drivers with DUI violations</u> <u>Limiting radius of operations to 200mi. from garage locations</u>
Prevention	<u>Use of tracking devices to minimize driver fatigue</u> <u>Regularly scheduled maintenance and inspections</u>
Reduction	<u>Use of seatbelts</u> <u>GPS Device Use</u>
Segregation Separation Duplication	<u>Separation of fleets into multiple garage locations</u> <u>Designate backup vehicles for key vehicles so there is no disruption to operations should they be unavailable due to repair or need to be replaced.</u>
Transfer	<u>Transfer contract with a trucking company to transport goods to designated locations</u>

Property Exposures and Hazard Control Programs

▶▶ Knowledge Check



ABC Widget Factory opens a new manufacturing plant in a previously wooded area in the Sacramento foothills of California. Part of their manufacturing process relies on vinyl chloride, an odorless, flammable gas.

1. Explain two factors affecting their property exposures to loss.
 - a. Geographic Location – This area of California is prone to forest fires.
 - b. Storage Practices – Their practices involving the storage of vinyl chloride may increase their exposure to loss.

2. The “C” in COPE stands for Construction.

Give two examples related to this letter of the acronym that would reduce ABC Widget Factory’s exposure to loss.

- c. A fire resistive or modified fire resistive structure would reduce their exposure to loss.
- d. Construction from wooden frame would increase their exposure to loss.

Give one example that would increase their exposure to loss.

- a. A fire resistive or modified fire resistive structure would reduce their exposure to loss.
- Construction from wooden frame would increase their exposure to loss.

3. The “P” in COPE stands for Protection.

Give three examples related to this letter of the acronym that ABC Widget Factory could employ.

Sample Answers

- a. Automatic sprinkler systems
- b. Fire and smoke alarms
- c. Fire doors

Cyber Risk Exposures

Check-In



Directions: Match the activity in the left to the type of cyber risk in the right column. Note, the terms in the right are used more than once.

<p>A. First-Party</p> <p>B. Third-Party</p>	<p><u> A. </u> After suspicious activity on their network, a company assumes they may have suffered a data breach. The company hires a forensics investigator.</p>
	<p><u> B. </u> A company hires a web designer to rebuild their website. The web designer fails to secure permission to use several images they included on the website.</p>
	<p><u> A. </u> An E-commerce website suffers a data breach. As per state regulations, they must notify consumers and offer identity theft monitoring services.</p>
	<p><u> B. </u> A company based in the US conducts most of its online business in the EU. They have access to confidential client information.</p>
	<p><u> B. </u> A nurse mistakenly sends a client file to the wrong individual.</p>

▶▶ Knowledge Check



Directions: Read the scenario below and explain your response.

Directions: Read the scenario below and explain your response.



Ned owns a comic bookstore in the revitalized downtown section of his city. While meeting with Ned to discuss his insurance, you discover that he is also the largest comic book dealer on the internet, selling his comic books on an international sales platform. While Ned's local sales are lackluster, his e-commerce sales are lucrative.

What cyber exposures does Ned have? What cyber risk control measures could Ned potentially implement?

If Ned takes credit cards for his local sales, the credit card detail storage can be compromised in a cyber breach, creating PCI issues as well as liability issues for any stolen identities. Since Ned has a website and uses the internet, he has exposure to viruses and malware being introduced into his website or email. People from all over the world can access his website and he could be subject to violation of regulations from state, federal, and international authorities. He can also be subject to Denial-of-Service attacks.

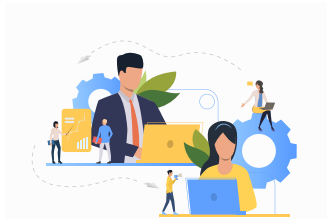
Ned should evaluate new and existing applications, systems, and data management plans for proper security controls, fire walls, and hierarchy of access. Ned should ensure that robust passwords are used and changed frequently. Customers' personal information - credit cards, banking - needs to be secured if it is retained in the system. Anti-virus software should be utilized and systems scanned for malware and viruses on a regular basis.

Contractual Risk Transfer

▶▶ Knowledge Check



Directions: Identify and explain the results of the contractual risk transfer in the following scenario:



Wilson Designs hires an information technology company, ABC IT, to perform upgrades to its data management system. The contract contains a mutual waiver of subrogation. One of ABC IT's employees is walking across Wilson's office when he trips over a rip in the carpet and breaks his leg. The ABC IT employee files a workers compensation claim. The next week, one of Wilson's own employees breaks his arm when he trips over tools that an ABC IT employee left on the floor. How will the waiver of subrogation impact ABC IT's and Wilson Designs' insurance carriers?

Because it is a mutual waiver of subrogation neither Wilson's nor ABC's Workers compensation insurance carrier can subrogate against the other for recovery of medical expenses and wages paid to their insured's injured employee even though the other party is at fault.

Section 3 Self-Quiz

Directions: Respond to the questions below.

1. Which one of the following is an example of a “disparate impact?”

- ☒ An employer requires a pre-employment written test. An analysis of the data shows that mostly non-Caucasian candidates fail the test.
- ☐ An employee talks about his husband in the workplace. A manager decides to fire that employee for his sexual orientation.
- ☐ An interviewer asks a prospective employee where he is from. On discovering the employee is from Pakistan, the interviewer rejects the employee’s application.
- ☐ A large consulting firm refuses to provide any accommodation to an employee who has recently become wheelchair bound.

“Disparate impact” refers to policies that are seemingly neutral but unfairly impact certain protected classes. Only the first option is an example of a disparate impact. The other three examples are direct and intentional acts of discrimination.

2. Which one of the following would most likely be considered an example of sexual harassment?

- ☐ A male employee invites a female employee to an informal happy hour.
- ☐ Two coworkers at the same seniority level have a consensual relationship.
- ☐ An employee made some off-color, sexually oriented jokes at a holiday party.
- ☒ A boss solicits her employee for a date in exchange for additional time off.

Sexual harassment includes unwelcome sexual advances, requests for sexual favors, and other verbal or physical harassment of a sexual nature. The last option is the clearest example of sexual harassment.

3. Which of the following are appropriate risk control measures for employment practices liability exposures? Select all that apply.

- ☒ Train interviewers to avoid sensitive topics like race and focusing on a candidate’s qualification during an interview.
- ☐ Involuntarily reduce the hours of an individual complaining about sexual harassment so they can feel more comfortable.
- ☒ Remove the names and addresses of prospective employees when sending resumes to a hiring committee.
- ☐ Subject employees injured in a workplace accident to a performance improvement plan and increased scrutiny.

Both the first and third options are sound policies and procedures that could reduce unintentional discrimination in the workplace.

Section 3: Risk Control and Mitigation - Property and Liability

4. Match the hazards described in the right column to their corresponding risk category shown on the left.

A. Property	D. Severe tornado weather grounds a majority of a shipping company's air freight fleet but causes no actual damage.
B. Liability	
C. Human Resources	A. Lightning strikes Peter's house and "fries" his computer.
D. Net Income	C. An employee of a trucking company had a stroke and collapsed in the warehouse.
	B. An employee of a delivery company is delivering his load to Tom's shoe store and strikes a customer with the hand truck.

5. Your client complains that their truckers have been in numerous accidents due to their own aggressive driving. Which risk control measure would most directly address this concern?

- ☒ Use "How am I driving?" signage on all vehicles.
- ☐ Ensure all drivers have valid licensing.
- ☐ Have GPS tracking of all vehicles.
- ☐ Increase limits on the business auto policy.

The first option most directly addresses the concern of aggressive driving. This signage is proven to reduce accidents and will also make company drivers more aware of their own behavior.

6. In 2013, a fire began at a fertilizer distribution company. The fire reached the ammonium nitrate, resulting in a large explosion. The _____ was the peril, the _____ was the hazard.

- ☐ fertilizer distribution; explosion
- ☐ ammonium nitrate; fire
- ☒ fire; ammonium nitrate
- ☐ explosion; fire

Perils are the cause of loss, which, in this case, was the fire. Hazards exacerbate the loss. In this case, the hazard was the storage of ammonium nitrate.

Section 3: Risk Control and Mitigation - Property and Liability

7. Which risk control measure could the fertilizer company have implemented to reduce or eliminate the hazard? **(Select all that apply.)**

- ☐ Stop the use of ammonium nitrate in the production of fertilizer.
- ☒ Enhance the fire mitigation systems and store the ammonium nitrate in a separate building.
- ☒ Work with local fire brigades to ensure rapid response to a fire incident.
- ☒ Provide training to employees to properly identify any safety hazards.

The first option is not a feasible risk control measure; the other three are measures that could be employed to reduce the hazard associated with the storage of ammonium nitrate. Ammonium nitrate is a common form of fertilizer, so stopping the use of ammonium nitrate entirely would not be feasible.

8. A company could reduce its maximum possible loss from fire by _____.

- ☐ installing new fire mitigation systems
- ☐ relocating its operations to an area with a better-funded fire department
- ☒ separating its operations into buildings located in three different states
- ☐ purchasing a state-of-the-art fire alarm system

To determine the maximum possible loss (MPL), the risk manager must assume that all protective measures fail. As a result, the only possible way to reduce the MPL is by putting sufficient distance between the business's properties.

9. A graphics design and website hosting firm based in the United States offers a service where they design and host a client's website. They work with clients across the globe. One of their largest clients is an online music equipment rental service.

Read the statements below regarding the client's cyber risk exposures and determine if the statements are true or false.

- a) Data storage and the collection of private client information are significant cyber risk exposures for the company.

True

False

The company hosts websites and, in the case of at least one of their clients, the company is responsible for collecting and storing private client information. The company has at least these two cyber exposures.

Section 3: Risk Control and Mitigation - Property and Liability

- b) The company could be held liable if one of their client's website's is hacked and used to spread computer viruses.

True

False

If one of the company's various websites that they host is hacked, there could be potential liability issues if the website is used to transfer viruses to other individuals or organizations.

- c) Since the company is chiefly based in the United States, they are only exposed to regulatory issues stemming from U.S. statutes.

True

False

Based on how the company conducts its business, it may subject to privacy laws outside of those that exist in the United States. These laws are an exposure, and failure to follow these laws could result in substantial fines for the company.

10. A company has instituted a new cybersecurity protocol which requires employees to enter a code sent to their work cell phone prior to logging into their work accounts. This is an example of _____.

- ☐ zero trust architecture
- ☒ multifactor authentication
- ☐ privileged access management
- ☐ an incident response plan

This is an example of multifactor authentication. MFA is a security layer that requires the user to provide two or more pieces of evidence to be authenticated.

11. A natural gas distributor targeted in a ransomware attack is unable to distribute gas to homes. During the crisis, the company loses income. This is an example of a _____.

First-party cyber risk

Third-party cyber liability risk

First-party risks include losses that have a direct impact on an insured's operations, such as a loss of business income.

12. A healthcare company is hacked. The private health information of thousands of companies is presumably compromised, and a lawsuit occurs. This is an example of _____.

First-party cyber risk

Third-party cyber liability risk

Third-party risks include liability issues stemming from the inability to secure data.

Section 3: Risk Control and Mitigation - Property and Liability

13. Match the scenario on the right to the corresponding type of contractual risk transfer employed shown on the left.

<p>A. Intermediate hold harmless agreement</p> <p>B. Exculpatory agreement.</p> <p>C. Limit of liability</p> <p>D. Broad form hold harmless agreement</p> <p>E. Waiver of subrogation</p> <p>F. Limited form hold harmless agreement</p>	<p>B. Bob needs some electrical work done. His buddy, John, is a good handyman who volunteers to do the work for free. John is concerned that he might damage something while doing the work. Both sign an agreement that Bob will not pursue John for any damages he causes while doing the work.</p>
	<p>F. A construction company subcontracts with a roofer. A loss occurs for which the roofer and the construction company share joint liability. Under the contract, the roofer is only responsible for their share of the liability.</p>
	<p>C. A logistics company has entered into a contract with a client to ship \$1 million worth of electronics. The logistics company specifies in the contract that the company's liability for any loss or damage of goods in transit is limited to \$500,000.</p>
	<p>E. A contractor is hired to perform renovations in a commercial building. The property owner agrees to not have their insurer pursue legal action against the contractor's insurer in the event of a fire due to the contractor's negligence.</p>
	<p>D. A subcontractor signs an agreement where he is responsible for all liability without regard to fault of himself and/or the company he is contracted by.</p>
	<p>A. A construction company subcontracts with an HVAC company. A loss occurs for which both companies are jointly liable. Under the contract, the HVAC company is responsible for their own negligence and the negligence of the HVAC company.</p>

Section 4: Crisis and Disaster Planning

Defining Crises and Other Key Terms

▶▶ Knowledge Check



Directions: Respond to the following prompt.

Consider current events and provide an example of a crisis or disaster. Identify its source and fill out the chart identifying the phases of the crisis.

Answers will vary, but a filled out example of the activity is included below.

Name of Event: Record-breaking heat across the western and Southern U.S.	
Source of Crisis: Natural	
Phases of Crisis	
Threat:	Steady increase in temperatures over time—attributable to weather patterns
Warning:	Recent reports of continuing temperature increases for the Southern and Western U.S.
Event:	Temperatures are at record-breaking highs, wildfires are erupting, droughts are pervasive
Impact:	Injuries and deaths due to heat stroke and heat conditions; increased energy costs to consumers; increased wildfires destroying homes and vegetation; potential for landslides as hillside stability is undermined

Crisis Management, Business Continuity, and Disaster Recovery

▶▶ Knowledge Check



Directions: Answer the questions below.

Consider the recent COVID-19 pandemic.

1. Did your organization have a plan in place that responded to the crisis?

Answers will vary depending on individual organizations and available resources.

2. What steps were taken to ensure business continuity and enhance recovery?

Answers will vary depending on individual organizations and available resources.

3. What changes were made to the plan in terms of responding to future events?

Answers will vary depending on individual organizations and available resources.

Responses might indicate that working from home became standard and may even continue to this day. Similar answers could discuss the alternative methods used to ensure business continuity, e.g., restaurants converting to take out and delivery when in-person dining was prohibited, or schools using on-line instruction and programs such as ZOOM to model the classroom.

Crisis Management Goals and Principles

▶▶ Knowledge Check



Directions: Respond to the following prompts.

You are a leading consultant for a crisis management firm. One of your clients is a municipal government agency preparing a crisis management plan that responds to a chemical or bioweapon attack.

1. Provide an example of a pre-loss goal, a goal during the crisis, and a post-loss goal for the crisis management plan.

Sample answers:

Pre-Loss Goal: The agency should ensure that emergency services are trained on the crisis management plan and aware of how to implement it effectively.

Goal During Crisis: The agency should prioritize actions to reduce the loss to human life during the incident.

Post-Loss Goal: The agency should execute a strategy to return the municipality to normalcy as soon as possible.

2. Describe one principle the crisis management plan should follow and explain why that principle is important in this context.

Crisis Management Principle: An important principle to follow would be to ensure the plan is integrated. Members of the community, emergency services, and other relevant government agencies and officials should be aware of and involved in the crisis management plan.

Crisis Management

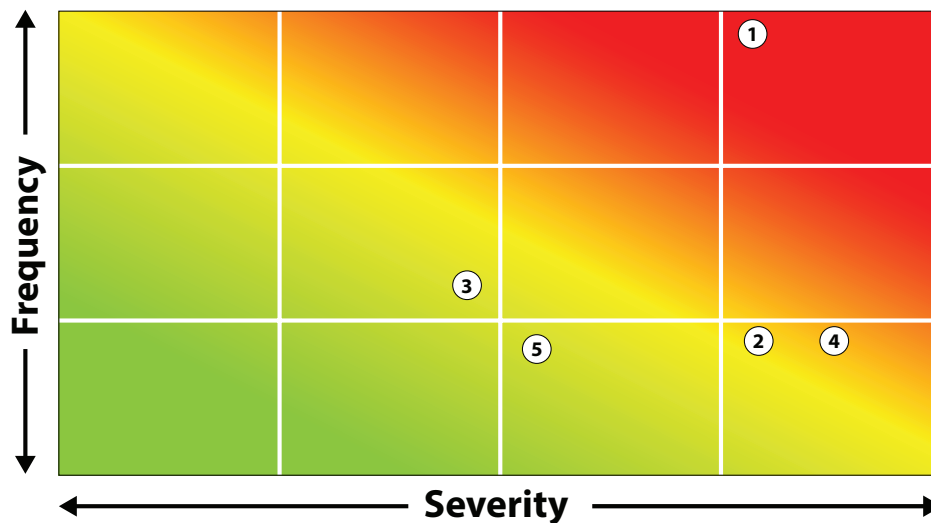
Check-In



Directions: Respond to the following prompts.

You are part of a crisis management team conducting a vulnerability/impact analysis for an oil refinery located on the coast of the Gulf of Mexico. Brainstorm at least five disasters that could reasonably impact your organization. Classify each potential disaster based on likelihood and impact using the heat map below. You are allowed to make assumptions but be prepared to explain those assumptions.

Heat Map Risk Matrix



Answers will vary, but a severe hurricane is a good example of a high likelihood event with a high impact on the oil refinery:

1. A severe hurricane – high severity, high frequency
2. An oil spill due to equipment failure – high severity, low frequency
3. Waves overtopping the seawall and damaging/washing away equipment – medium severity, medium frequency
4. An explosion at the refinery – high severity, low frequency
5. A strike by workers – medium severity, low frequency

Knowledge Check



Directions: Read the scenarios below and respond to the prompts.



XYZ Electronics is a leading data storage company known for its innovative products, exceptional customer service, and most importantly, its proven track record of keeping personally identifying information (PII) and other sensitive information secure. You are part of a team that is developing a crisis management plan for XYZ Electronics. Identify the first two steps of the crisis management process. List at least one example of an action that XYZ Electronics should take during those steps.

Step One: <u>Planning</u>	Actions during step one: <u>A crisis management team should be established.</u> <u>XYZ Electronics should also identify potential crises or disasters, such as a major data breach affecting its storage of private information.</u>
Step Two: <u>Preparation</u>	Actions during step two: <u>XYZ Electronics should be prepared to respond to a major data breach. They could secure funding or insurance to pay for liability issues caused by the major data breach, and they can prepare media statements to make after such a breach occurs.</u>

Section 4: Crisis and Disaster Planning



XYZ Electronics has encountered a severe security breach, and it is found that sensitive information of over 5 million individuals has been accessed by a third party. In some cases, this information included Social Security numbers and payment information. Identify the next two steps of the crisis management process and explain at least one example of an action that XYZ Electronics should take during each step.

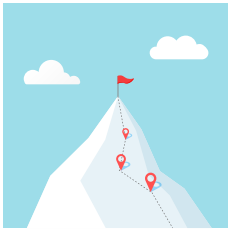
Step Three: <u>Response</u>	Actions during step three: <u>XYZ Electronics has a reputation to protect. A key action to take as part of their response is to be transparent and to immediately inform the media, the authorities, and its clients of the data leaks.</u>
Step Four: <u>Recovery</u>	Actions during step four: <u>XYZ Electronics should take steps to ensure the security of the system and resume normal operations. The company should then reevaluate its crisis management plan and make needed changes.</u>

Reputation Management During a Crisis

▶▶ Knowledge Check



Directions: Respond to the following prompts.



You are the risk manager of Ricky Mountain Experiences, a survival-type outdoor climbing and trekking tour operator with an international clientele. During a recent tour, several high-profile clients died due to exposure during a three-day blizzard when the guide's radio failed, and he was unable to call for help. Media coverage was widespread. You know that how an organization responds in the first 24 hours of a crisis sets the tone for the narrative.

- A. Provide three considerations when responding to a crisis.

Sample Answers:

Reputation management requires specific goals.

Crisis communication requires discipline.

Message delivery must be managed.

A damaged reputation will need to be restored.

continued on next page

Section 4: Crisis and Disaster Planning

- B. Message delivery is also critical following a crisis. Provide two guidelines for message delivery.

Sample Answers:

Quickly gather and confirm accurate information.

The message should be fact-based; forgetfulness can be forgiven but lies will not.

Acknowledge responsibility if it exists and demonstrate empathy.

Emphasize the organizational measures being taken to protect lives and mitigate damage.

Anticipate questions.

Never say “no comment” or speak “off-the-record.”

Section 4 Self-Quiz

Directions: Answer the questions below.

1. Which of the following is the best example of a crisis?
 - ☐ A company's CEO plans to resign in a few months due to personal issues.
 - ☐ An organization launches a product line that returns less profit than anticipated.
 - ☒ A cyber-attack compromises sensitive customer data stored on a server.
 - ☐ A department within a company undergoes routine restructuring.

A crisis is any critical incident that threatens or causes injury to people and/or produces significant property damage or a disruption of normal business operations. The third answer option is the best example of an incident that is likely to disrupt a business's normal operations.

2. A crisis management team has identified several potential crises that could impact their organization. Match the crises described in the right-hand column to their source in the left.

A. Industrial disaster	<u> C. </u> Intentional industrial sabotage by a disgruntled employee
B. Infrastructure disaster	<u> A. </u> A systems failure at the main plant leading to chemical spillage
C. Human hazard	<u> B. </u> A breakdown of the primary railway the company uses to ship its chemical precursors
D. Natural hazards	<u> D. </u> Severe blizzards that impact operations at the central manufacturing plant

Section 4: Crisis and Disaster Planning

Directions: Use the word bank to complete the sentences below.

threat	warning	event	impact
--------	---------	-------	--------

3. A hurricane's predicted path is altered by meteorologists. The hurricane is expected to make landfall and impact a company's operations by 4:00 PM. This is an example of a(n) warning.
4. Gunfire is suddenly heard in a hospital. The hospital is sent into a lockdown and emergency services are contacted. This is an example of a(n) event.
5. A concert venue receives an anonymous email stating that an intentional bombing will be carried out on the premises in the coming weeks. This is an example of a(n) threat.
6. After a severe security and malware breach, a company must spend weeks conducting tests to ensure the security of its systems. This is an example of a(n) impact.
7. Which of the following statements correctly defines a business continuity plan (BCP)?
 - ☒ The BCP outlines how a business will continue critical operations during a crisis.
 - ☐ The BCP establishes the team that defines and declares crisis events.
 - ☐ The BCP details the marketing and outreach tactics used to restore lost reputation.
 - ☐ The BCP creates a process by which key executives can be replaced after a crisis.

Business continuity refers to the ability of an organization to perform critical operational tasks during and following a disruptive event. A business continuity plan (BCP) outlines a range of disaster scenarios and the steps the business will take to return to regular operations.

8. The crisis management team of a coastal real estate firm has started to plan for the increasing occurrences of severe weather and flooding. Which principle of crisis management does this decision demonstrate?
 - ☐ Risk-driven
 - ☐ Integrated
 - ☒ Progressive
 - ☐ Collaborative

Crisis management plans should be progressive and anticipate future disasters and formulate preventative and preparatory measures to build disaster-resistant plans and operations. In this case, the team is being progressive in their planning.

Section 4: Crisis and Disaster Planning

9. Which of the following goals is the highest priority during a crisis?

- ☐ Protecting business property
- ☒ Protecting human life
- ☐ Keeping media communication open
- ☐ Preserving company reputation

Protecting human life should be the highest priority during a crisis. Outside of moral issues, it would be disastrous if it was discovered that the organization attempted to protect property or its reputation over human life during a crisis.

10. How should communication be coordinated during a crisis?

- ☐ During a crisis, external communication should be bottom up, for example from a factory floor worker to the top tier of management. .
- ☐ Communication should cease during a crisis. Due to the “fog of war,” transmission is too unreliable and can cause issues.
- ☐ Communication should remain flexible, and any individual in the organization should participate in communication.
- ☒ A central spokesperson should be identified. All internal or external information should go through this individual.

Maintaining message continuity and control is a critical aspect of crisis communications. There should be “one voice.”

11. Why would a crisis management team use a heat map risk matrix?

- ☐ To track the geographical spread of a crisis and its impact on different regions
- ☒ To visually identify the likelihood and severity of impact of potential crises
- ☐ To visualize the expected financial cost of preparing for a crisis
- ☐ To assess the overall financial losses following a major crisis

One way of ranking the potential disasters/crises that could occur is by using a heat map. Heat mapping is a visual representation of complex sets of data interpretations that use colors to indicate patterns or groupings of how risk will impact an organization. Values are assigned based on measurement scales for both severity and frequency for each risk.

12. A hospital located in the gulf coast has a large intensive care unit with many patients on life support. Which of the following would be an important consideration for the hospital during the preparation phase of crisis management?

- ☐ Has a crisis management plan been created?
- ☐ Has the crisis management team conducted a vulnerability assessment?
- ☒ Is a backup power source needed and available?
- ☐ Have insurance claims been filed?

The crisis management team should have identified each peril or crisis during the planning stage. Preparation, the second step, requires the team to generate countermeasures for both loss prevention and loss reduction. In this case, securing a backup power source for the ICU would be a relevant loss prevention/reduction step.

13. An organization initiates a mutual aid agreement with its competitor for the use of facilities. These types of agreements would be activated during the _____ phase.

- ☐ planning
- ☐ preparation
- ☐ response
- ☒ recovery

During the recovery phase, efforts should be made to restore limited business operations. A mutual aid agreement would allow the organization to use another organization's facilities if theirs cannot be used following a disaster.

14. A company owns a large apartment condominium. The apartment building collapses, leaving 11 individuals dead and hundreds of others displaced. Which of the following steps should the company take to manage its reputation during the crisis? **(Select all that apply).**

- ☒ Empathize with the individuals and families directly impacted by the crisis.
- ☐ Provide potential speculative reasons as to why the collapse occurred.
- ☒ Explain the steps it is taking for its recovery efforts during the crisis.
- ☐ Avoid any public questioning and provide no comment to any journalistic inquiries.

During a crisis, companies should attempt to be as transparent as possible. Empathizing with individuals and explaining the steps of the recovery effort can demonstrate the company is making a best effort to correct the situation and can help restore public confidence.

15. A large chemical fire at a factory has taken the life of at least two workers and injured dozens. Which of the following actions should the factory management avoid?

- ☐ Acknowledging the event occurred
- ☒ Allowing middle management to provide their own statements on the event
- ☐ Ensuring that all reported statements are truthful and accurate
- ☐ Providing direct assistance to affected workers and their families

Allowing multiple sources of information to communicate on behalf of the corporation can result in contradictory messages. Messaging should remain disciplined, and only one spokesperson should be selected to prevent unnecessary media speculation.

Section 5: Claims Management

Section 5: Claims Management

Defining Claims Management

▶▶ Knowledge Check



Directions: Answer the questions below.

1. Explain how enforcing the contractual obligations of others supports claims management and risk control.

Contractual obligations such as hold harmless agreements reduce the amount of money paid out in claims, thus reducing the total cost of risk for the organization. The risk manager/claims manager controls and manages claims expenditures by enforcing these obligations.

2. XYZTech is an IT company. During a project with a long-term client, XYZTech experiences some disruptions that may have resulted in a slight financial loss to the client. How might an *ex gratia* payment to the client benefit XYZTech?

An *ex gratia* payment will help maintain goodwill between XYZTech and the client. Since no liability needs to be proven for this type of payment, there is no admission of fault on the part of XYZTech, but the payment may help to avoid further strained relations and legal action.

The Claims Management Process

▶▶ Knowledge Check



Directions: Answer the question below.

As risk manager for Uno's Fine Foods, you are advised that multiple cases of food poisoning have been sustained by a group of young students attending an awards banquet in one of your restaurants. What steps would you take during the investigation phase of the claims management process?

Sample answers could include:

Contact the parents, ask permission to speak with the student in their presence, determine what each child ate, and, whether there a common denominator. Did they all eat or drink the same thing? Gather medical/hospital records, maintain communication with parents and medical providers, and document the claim file with the results of the investigation. Determine when the students are expected to return to good health. Were any cases particularly serious? If possible, determine any underlying conditions of students which might have exacerbated their illness.

Evaluation

Check-In



Directions: Respond to the questions below.

At a Lake Tahoe resort, a maintenance staff member forgot to clean the snow and ice from a parking lot. As a result, two guests slipped on the ice. Their incident reports are as follows:

Guest number 1 suffered a broken leg when she fell after stepping on the ice. Her medical bills are \$4,000, and her lost wages are \$1,000. Is the Lake Tahoe resort negligent?

Yes, the resort is negligent—all four elements of negligence are present. They had a duty to keep the parking lot free of ice and snow. They failed in that duty, and guests slipped on the ice, with damages resulting due to their breach of duty.

Guest number 2 landed in a snowbank after slipping on the ice. He brushed off his ski clothes and continued to the chair lifts. Is the resort negligent?

No, the resort is not negligent—all four elements of negligence are not met. The guest did not sustain injuries as a result of the resort's breach of their duty to keep the parking lot free of snow and ice.

▶▶ Knowledge Check



Directions: Fill in the chart below.

As the risk manager at Uno's Fine Foods, you have completed your initial investigation. Explain what steps you would take during the claims management process evaluation phase for each of the following topics.

Coverage	Review the policy to determine if this is a covered cause of the loss or if any exclusions apply; advise the insured (and agent) via reservation of rights or partial disclaimer if there is a coverage issue.
Liability	Determine the restaurant's liability or fault for the food poisoning. Can it be traced to a specific source? Did the students all eat together earlier in the day?
Damages	Evaluate the damages of each student based on length and severity of illness and any lost wages if they missed work.
Reserve	Adjust reserves accordingly based on the information determined during the evaluation step.

Resolution

▶▶ Knowledge Check



Directions: Answer the question below.

You are the risk manager for Uno's Fine Foods. After investigating, you've found that several students under age 18 became ill after dining at Uno's restaurant. What would be an appropriate way of bringing this claim to its resolution?

Sample Answer:

This does not sound like a case for denial unless no coverage is found. It would be best to weigh liability/damages and offer each student's parents a reasonable settlement. The offer should also include consideration of their pain and suffering/discomfort during their illness. Draft an appropriate release bearing in mind that the students are minors and have the right to reopen the case or sue the restaurant when they reach the age of majority.

Types of Claims Management Plans

▶▶ Knowledge Check



Directions: Answer the question.

The CFO of Hometown Bank wants an insurance plan that provides stability and 100% external financing. What type of plan should he select? Why? What would be some disadvantages to the plan?

The CEO should purchase an insured plan. This offers him complete stability in that there are no further costs once the premium is paid. The insurance company is responsible for paying claims. While he has control of budgeting based over the annual premium, he has no control on how the claims are managed or resolved.

Claims Audits

▶▶ Knowledge Check



Directions: Answer the question below.



Shania is the risk manager for Red Rock Manufacturing. Red Rock has operations in 16 states. She is preparing a claims audit of her TPA. Shania asks them to pull a representative sampling of workers compensation files for her review. When she arrives at the TPA's offices, she is shown to an office with eight files on the desk. Her account manager tells her there are two open "lost time" files from each of the adjusters managing her workers compensation claims. Shania is surprised because she knows Red Rock has over 200 claims a year.

Explain why Shania will not be able to conduct an effective claims audit. Include an explanation of how Shania could have avoided this issue during the audit of the TPA.

To begin with, eight open claims are not a large enough representative sample. The potential problem is that these files have been "cherry-picked" to show the adjusters in the best light. The audit should cover both open and closed files so Shania can identify any trends in the claims management. Shania should also review any medical-only claims to gauge the management of those claims. Shania could have avoided this issue by requesting the most recent loss run of open and closed claims for both workers compensation and medical-only claims.

Third-Party Administration (TPA) Selection

▶▶ Knowledge Check



Directions: Answer the questions below.

1. One consideration in TPA selection is the qualifications of their staff. List four additional considerations that should be carefully evaluated during the TPA selection process.

(Any four) Information systems, flexibility in account handling, accessibility to the organization, best practices and quality control, industry experience and reputation, additional services, pricing, and value-added services (not always free)

2. Describe at least two TPA staff qualifications that should be reviewed as part of selecting a TPA.

The risk manager should examine turnover rates for companies and branches, the professional biographies of potential team members, their years of experience in the industry, their experience handling similar lines of coverage, and their list of clients, licensing and professional development training, and level of professionalism, and whether the number of employees is adequate for the workload.

Section 5 Self-Quiz

Directions: Answer the questions below.

1. Which of the following statements about claims management are true? **(Select all that apply).**

- ☒ Claims management aims to resolve claims promptly and at an optimal cost.
- ☐ Claims management only applies to self-insured organizations or those that use a TPA.
- ☐ Strong claims management programs focus on resolving claims solely through litigation.
- ☒ Enforcing contractual obligations during claims management can reduce the total cost of risk.

Both the first and last options are correct statements. Claims should be resolved promptly, as they tend to become more expensive over time. Furthermore, enforcing contractual obligations (such as hold harmless agreements) can reduce the total cost of risk since other liable parties are forced to pay for their own obligations.

2. Why is effective claims management beneficial to a risk control program?

- ☐ An effective claims management plan can improve an organization's customer service.
- ☒ An effective claims management plan can reduce or mitigate damages.
- ☐ An effective claims management plan improves communication within an organization.
- ☐ An effective claims management plan improves an organization's communication with external stakeholders.

A major goal of claims management is to reduce the financial impact of a claim. This is beneficial because it can reduce the overall cost of risk.

Section 5: Claims Management

3. ABC Construction recently completed an office building. Throughout the construction, several specialized subcontractors were used. One of the tenants of the building is severely injured after being shocked while using an electrical outlet. The tenant sued, alleging that ABC's negligence in construction led to her injury. What question(s) should the risk manager ask during the investigation phase of managing this claim? **(Select all that apply.)**

- ☒ Could the defective work of a subcontractor be the cause of the injury?
- ☐ Was the injured tenant wearing rubber-soled shoes at the time of the incident?
- ☒ Was the tenant using a defective electrical device that could have caused the shock?
- ☐ Did the injured tenant recently move from another state?

Both the first and third options would be appropriate questions to ask as part of the investigation, as the answers to these questions could reveal if ABC Construction was directly liable for the injury or if the defective work of other parties was the direct cause of the tenant's injury.

4. A non-waiver agreement is unilateral and only protects the interests of the insurance carrier.

True

False

Non-waiver agreements are bilateral agreements. They are the result of both the insurance carrier and insured organization discussing the case and recognizing that there may be coverage issues.

5. An individual files a claim against Super Fun Theme Parks. The facts show that the theme park failed to train employees in safety measures, resulting in unsafe practices leading to the individual's injury. Did the park behave negligently?

Yes

No

Yes. This incident contains all four elements of negligence. The park had a duty, it breached that duty, and damages resulted from the breach of its duty.

Section 5: Claims Management

6. The degree of liability Super Fun Theme Parks has for the accident has little impact on the total value of the claim.

True

False

Questions of liability play an important part in the evaluation process of a claim. Since the organization is liable for the injury, they can expect an increase in the claim's value.

7. The severity of the injury does not impact the damages the theme park can expect to pay.

True

False

False. The severity of the injury impacts areas like the individual's medical bills, wages lost, and so on. This would increase the compensatory damages the organization may have to pay.

8. Which one of the following definitions correctly describes the individual case method of evaluation?

- ☒ This method involves a value being assigned to a claim by an adjuster based on an investigation and past experience with that type of claim.
- ☐ This method relies on past experience for specific categories of claims (such as physical auto damage) to project reserves.
- ☐ This method is best used in claims in which a disability percentage, mortality, morbidity, and remarriage rates are established.
- ☐ This method involves an outside investigation of the claim's value and is typically used when fraud is suspected.

The first statement correctly defines the individual case method of evaluation, which consists of an investigation and evaluation of a claim based on the claim's merits and circumstances.

Section 5: Claims Management

9. Which one of the following is an example of a pure IBNR claim?

- ☐ A grocery store patron slips and falls on spilled milk but quickly leaves because they are embarrassed. After going to their doctor, they realize they are injured but decide not to pursue a claim against the grocery store.
- ☐ A grocery store patron slips and falls on spilled milk. The incident is documented immediately, and the patron refuses to sign a release. The store attempts to settle, but ultimately, the patron pursues litigation against the company.
- ☐ A grocery store patron slips and falls on spilled milk. The manager immediately documents the incident. The patron ultimately signs a release after the company makes an *ex gratia* payment.
- ☒ A grocery store patron slips and falls on spilled milk but quickly leaves because they are embarrassed. Six months later, a doctor tells them they have three slipped disks from the fall. A year later, they file a suit against the grocery store.

Pure IBNR claims are those that have occurred but have not yet been reported or recorded as reserves. The last statement is the best example of a pure IBNR claim since the loss occurred a year before the claim is ultimately filed and recorded as reserves.

10. Which one of the following best illustrates why alternative dispute resolution (ADR) could be preferable to traditional litigation?

- ☐ ADR provides an opportunity for public exposure and media coverage, ensuring a swift resolution to a dispute.
- ☐ ADR offers a structured and formal legal process, ensuring the involvement of multiple judges for unbiased decision-making.
- ☒ ADR typically results in lower costs and potentially faster resolution than traditional litigation.
- ☐ ADR allows for the appeal to higher courts, offering parties a chance to challenge decisions they disagree with.

The third statement is correct. While litigation is a method of resolving claims, the process is often prolonged and expensive. Alternative dispute resolution offers a way of resolving disputes without the need for costly litigation.

Section 5: Claims Management

11. Which of the following statements about settlements are true? **(Select all that apply.)**

- ☒ Structured settlements can avoid the issue of the claimant squandering the settlement due to inexperience in money management.
- ☐ A lump sum payment is preferable for an organization since it can save more money to invest in other assets in the long run.
- ☒ Lump sum payments generate interest income, which is taxable. This can contribute to the claimant's financial drain.
- ☐ Structured settlements violate an attorney's fiduciary obligations to the claimant since they secure less money in the short term for the client.

Both the first and third options are true. Lump sum payments are easily squandered due to financial mismanagement, and the taxing of interest income contributes to that drain. Structured settlements are preferable because they benefit an organization since they avoid paying the entire settlement at one time. Furthermore, settlements can be structured to meet a claimant's future needs.

12. The right-hand column describes types of organizations. Based on its need, match each organization to the type of claims management plan it would most likely benefit from.

A. Fully Insured B. Self-Administered C. Third-Party Administered	<u>B.</u> A company wants complete control over its settlement procedures and wants to use its own in-house counsel for all claims-related matters.
	<u>C.</u> A company wants more input on its own risks but lacks the resources and financial throughput to manage its own claims entirely.
	<u>A.</u> A small start-up wants to purchase a stable and externally financed insurance plan. The goal is to be able to budget based on an annual premium.

The answers are B, C, and A, respectively. Please review Learning Objective 5.4 for more information on considerations used when selecting a claims management plan.

Section 5: Claims Management

13. Which of the following are components of a claims audit of a TPA? **(Select all that apply.)**

- ☒ Financial integrity
- ☒ Claims technical work product
- ☐ Marketing practices
- ☒ Reserving practices

Marketing practices is the only component listed that would not be included in the claims audit since it does not relate to the claims management function of the TPA.

14. After an audit, an organization finds that its TPA has repeatedly failed to pursue subrogation and has also allowed claims to go to litigation when resolution was possible. These audit findings indicate issues with:

- ☐ Claims payment
- ☒ Claims handling
- ☐ Procedural issues
- ☐ Documentation issues

The audit indicates that the TPA has issues with claims handling since claims results do not support the total cost of claims.

15. Which contractual considerations should a risk manager make when selecting a TPA?

- ☒ Does the TPA specify in the service agreement that they will indemnify the organization when the TPA is negligent?
- ☐ Is the TPA's size appropriate for the organization, and is the TPA's management readily available?
- ☐ Does the TPA have accurate promotional materials on its website?
- ☐ Does the TPA allow for flexibility in account handling, or does it use a cookie-cutter approach?

Only the first answer choice is an example of a contractual consideration to be made when selecting a TPA. The other answer choices indicate staffing and other considerations.

Section 5: Claims Management

16. A risk manager is working with a law firm. Why would it be in the risk manager's interests to clearly define which law firm members will participate in certain legal activities?
- ☐ Doing so will be more cost-effective if experienced law firm members conduct activities like research since this will reduce the total billable hours.
 - ☐ Doing so will ensure a higher quality of casework if the organization can avoid having paralegals or junior associates perform tasks.
 - ☒ Doing so will be more cost-effective if law firm members with lower fees (like paralegals) conduct basic activities like legal research.
 - ☐ Doing so will ensure the law firm rotates lawyers between tasks frequently, ensuring that there is no burnout while working the case.

Clearly defining how law firm members participate in legal activities relates to the financial costs. Different members have different hourly rates, with senior partners being the highest and paralegals generally having the lowest. The organization should ensure that paralegals perform daily tasks, as this is an effective way of managing legal costs.

Appendix

Preparing for the Final Exam

For many learners, test preparation is stressful. Please keep in mind that the most important measure of your knowledge will be witnessed in your service to your organization. Think of a test as a tool. Use it to come to an understanding of what you know, how it affects your work, and what more you would like to know to have even greater success in the workplace.

The testing period for the Final Exam is 2 ½ hours long. The test itself is composed of 17–21 short-answer questions for a total of 200 possible points. Questions appear in the order of presentation of the topics.

Remain aware of the time as you take the test. Pace yourself and be aware that unanswered questions are considered incorrect.

Study Techniques

There are some techniques you can use to help you prepare for the end-of-course test. Apply the same techniques to each chapter in your learning guide.

1. Review the Section Goal.
2. Review each Learning Objective.
3. Change each header and subhead into a question. Then answer the question. For example,
Header: Components of a Formal Training Plan
Question: What are the components of a formal training plan?
4. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific Learning Objective.
5. Check your answers to each Check-In. Correct your original answers, if necessary.
6. Check your answers to each Knowledge Check. Consider ways to improve your original answers.
7. Re-read the summary at the end of each section.
8. Check your answers to each question in the Self-Quizzes at the end of each section. Correct your original answers, if necessary.
9. Review any comments, highlights, or notes you made in each section.

10. Rewrite important ideas in your own words. Find ways to connect those ideas to your own work experiences.
11. Make flash cards to help you review important vocabulary.

Sample Test Questions

1. The Americans with Disabilities act of 1990 established several definitions crucial to understanding Employment Practices Liability. One of those is disparate impact. Please provide that definition.

Sample Answer:

A practice that appears to be a neutral employment practice but has an otherwise unjustified adverse impact on individuals within a protected class.

2. A crisis will typically have 4 distinct phases. Please identify and describe those phases in the correct order.

Sample Answer:

- a. **Threat** – A likely probability of occurrence, but, it has not yet happened
- b. **Warning** – The occurrence is imminent
- c. **Event** – The event occurs at a specific time and place with a potential adverse effects.
- d. **Impact** – The impact of the event after it has occurred.

Glossary of Terms

Section 1: Risk Management Concepts

accident – an unexpected and unintentional event that tends to result in damage or injury

avoidance – eliminating an activity or exposure, thereby removing the chance of a loss

claim – a demand for payment or an obligation to pay as the result of a loss. Claims can be paid by the insurance company or an individual/organization.

duplication – a risk control technique that aims to reduce the overall severity of a loss by using back-ups for critical systems or operations

ergonomics – 1) the applied science of equipment and workplace design intended to maximize productivity by reducing operator fatigue and discomfort; 2) fitting the work environment to the person rather than expecting the person to adapt to the physical work environment

expected losses – a prediction of the frequency and severity of losses based on loss history distributions and statistics

exposure – a situation, practice, or condition that may lead to a loss. Activities, resources, and assets are also viewed as exposures.

frequency – the number of incidents, accidents, occurrences, or claims in a given time period, usually a policy year or calendar year

hazard – a condition or circumstance that makes a loss from a given peril more likely or more severe

incident – an unplanned event that may lead to a loss or a claim

loss – a decrease in the value of an asset

occurrence – an accident without a time constraint

peril – the cause of loss

prevention – a risk control technique that attempts to reduce the frequency of types of claims that cannot be eliminated by breaking the sequence of events that leads to a loss or by making a loss event less likely

pure risk – a situation whose only outcome can either be loss or no loss

qualitative risk analysis – a type of risk analysis used to look at possible risks and how an organization might be impacted by them

quantitative risk analysis – a type of risk analysis that uses numerical values to predict the likelihood and severity of a risk

Glossary of Terms

reduction – a risk control technique that attempts to reduce the severity or financial impact from losses that are not prevented

risk – the possibility of a positive or negative outcome arising from a given set of circumstances

Risk Administration – the implementation of the risk management program's policies and procedures and the ongoing monitoring of their success

Risk Analysis – the process of assessing the potential impact exposures may have on an organization

risk appetite – an organization's willingness to accept or tolerate risk

Risk Control – any conscious action or inaction to minimize at the optimal cost the probability, frequency, severity, or unpredictability of loss

Risk Identification – the identification and examination of all an organization's exposures, perils, and hazards

Risk Financing – acquiring funds to pay for losses an organization experiences

risk-taking ability – the financial capacity an organization has for assuming risk

risk transfer – a risk control technique that attempts to reduce or prevent loss by transferring some or all of the risk to another organization

segregation – the isolation of an exposure from other exposures, perils, or hazards

separation – the spread of exposures or activities over several locations

severity – the dollar amount of a single loss or the total value of all losses in a given time period

speculative risk – the possibility of loss or no loss; however, it also presents the chance of a gain

Total Cost of Risk (TCOR) – the sum of all costs and expenses associated with risks and risk management within an organization. The formula follows: 1) Insurance costs + (2) retained losses + (3) risk management department costs + (4) outside service costs + (5) measurable indirect costs = TCOR

Section 2: Risk Control and Mitigation – Human Resources

Days Away, Restricted, and Transfer Rate (DART) – A Bureau and Labor statistics measure of injury and illness cases involving days away, restricted duties, or transfer to other duties during the return-to-work phase; calculated with the following formula:

$$\frac{\text{\# of DART cases} \times 200,000}{\text{\# of hours worked by all employees in a given year}}$$

Total Recordable Injury Rate (TRIR) – a formula applied to any work-related injury beyond first aid; calculated with the following formula:

$$\frac{\text{\# of cases of injury and illness} \times 200,000}{\text{\# of hours worked by all employees in a given year}}$$

Section 3: Risk Control and Mitigation – Property and Liability

COPE – an acronym referring to a structure’s construction, occupancy, protection and exposure

disabled individual – any individual who has a physical or mental impairment that substantially limits one or more major life activities

discriminatory treatment – situations in which an individual is treated differently from other similarly situated persons because of that individual’s protected status

disparate impact – a practice that appears to be a neutral employment practice but has an otherwise unjustified adverse impact on individuals within a protected class

exculpatory agreements – pre-event exoneration of the fault of one party that results in any loss or specified loss to another

hold harmless agreement – the affirmative assumption of the financial consequences for liabilities of another party through a contract between and indemnitor and indemnitee

hostile or offensive work environment – an environment that exists when unwelcome sexual conduct, overt or subtle, has the effect of unreasonably interfering with an individual’s work or performance or creates an intimidating, hostile, or offensive working environment

Incident Response Plan – A set of protocols and instructions for responding to and mitigating a cyber-attack

indemnitee – the one who is owed the obligation from another

indemnitor – the one who owes the obligation to another

Glossary of Terms

invasion of privacy – The intrusion upon the privacy and personal information of another by a person or entity without permission or just cause

limit of liability or liquidated damages clause – pre-event limitation of the amount, type, or method of calculation of damages available by one or both parties to an agreement

maximum possible loss (MPL) – the total value at risk at a single location regardless of protective measures. The amount is limited only by adequate separation between structures.

multifactor authentication (MFA) – a security layer that requires the user to provide two or more pieces of evidence to be authenticated

privileged access management (PAM) – a security technology that allows differing levels of access within an organization

probable maximum loss (PML) – the amount of loss expected from a specific peril given some level of impairment or delay in protection. PML is expressed as a percentage of the total values. Unless noted, PML refers to the peril of fire.

reasonable accommodation – any modification or adjustment to employment, an employment practice, or the work environment such that a qualified individual with a disability has an equal opportunity to obtain and hold that employment

retaliation – occurs when an organization makes an adverse employment decision or action against an employee who files a complaint, grievance, or lawsuit alleging injury from an employment practice

sexual harassment – unwelcome sexual advances, requests for sexual favors, and other verbal or physical harassment of a sexual nature

telematics – systems that use a mobile device to send and receive data from vehicles to a server

waiver of subrogation – a pre-event agreement to waive the right to seek recovery from a responsible party's insurance carrier for loss payments made to the insured

wrongful termination, discharge, or dismissal – when an employee's contract of employment is terminated by the employer, and the termination breaches one or more terms of the employment contract or an employment law

zero trust architecture – a security measure that requires the continuous validation and monitoring of a user's privileges and those associated with their device

Section 4: Crisis and Disaster Planning

business continuity – the ability of an organization to perform critical operational tasks during and following a disruptive event

crisis management – The act or process of managing a crisis to prevent a catastrophic loss, if possible, and reduce the impact of catastrophic losses on the organization, including its reputation and brand

disaster recovery – Maintaining the consistency and performance of vital resources, technology, and infrastructure during and after a disruptive event and returning to regular operations

Section 5: Claims Management

arbitration – a meeting of the parties in a forum to encourage a resolution or force a resolution without entering into litigation

assignment – a situation where the insurance carrier assumes a cause of action that its insured has against a third party. The insured “assigns” the cause of action to its insurer.

alternative dispute resolution – a way of resolving disputes without the need for expensive litigation. Examples include mediation, mini-trials and summary jury trials.

claims management – the prompt resolution of an organization’s losses subject to insurance or an active retention program, including claims by other individuals or entities to which it may be legally bound or ethically responsible

contractual liability – the theory of liability that is established by the body of contract law

declaratory judgment – a legal proceeding asking the court to resolve the issue based on the law rather than the facts

deductible plan – an insurance plan in which the insured agrees to reimburse the insurer for a specified amount for each claim

IBNR (incurred but not reported) – represents the liability for unpaid claims not reflected in the case reserve estimates for individual losses. The two components to IBNR reserves are pure IBNR and broad or bulk IBNR; pure IBNR are those claims that have occurred but have not yet been reported as of the evaluation date; and, broad or bulk IBNR is the additional development on known claims or the increase in reserve value as the claim are investigated and settled.

insured plan – a plan where the policyholder (individual or employer) pays a defined premium to an insurer and does not share in the risk associated with actual claims

mediation – a meeting of the parties in a forum to encourage a resolution or force a resolution without entering into litigation

mini-trial – a quasi-judicial format in which abbreviated testimony/evidence is presented and presided over by a mini-jury or magistrate. A mini-jury is comprised of a smaller number of jurors. Mini-trial results are generally final.

negligence – the failure to act as a reasonably prudent person would under the same set of circumstances

Glossary of Terms

negligent entrustment – the entrustment of a dangerous object—usually a vehicle, boat, or piece of mobile equipment—to anyone the owner knew or should have known was not sufficiently capable of operating it in a safe manner

negligent supervision – the failure to supervise or regulate the behavior of a person whom the supervisor knows or should have known was a danger to themselves or a danger to a third party

non-waiver agreement – a bilateral (two-sided) agreement protecting the rights of both the insurance carrier and the insured. It is the result of both parties discussing the case and recognizing that there may be coverage issues.

recovery – obtaining funds from another who bears some responsibility for or who also has coverage for the claim

regulatory or statutory liability – liability established by legislation or regulation

reservation of rights letter – a letter sent by the carrier to an insured party indicating that a claim may not be covered under a policy. It is a tool to avoid the repercussions of estoppel or waiver arguments.

self-administered plan – a plan in which the organization assumes responsibility for claims management and claims data management using internal staff

self-insured plan – a plan in which an organization makes a conscious decision to not purchase insurance and to pay certain claim amounts using 100% internal funding

subrogation – the insurer's right to recover from another responsible party the amount the insurer paid to (or for) its insured for a covered loss

summary jury trial – a quasi-judicial format in which abbreviated testimony and/or evidence is presented and presided over by a mini-jury or magistrate. Summary jury trials are not binding if not agreed to in advance by the parties.

third-party administered (TPA) plan – an independent third-party administrator (TPA) is hired by the insured to provide claims services and possibly other services that insurance carriers traditionally provide

tort – a civil wrong, other than a breach of contract, for which the court may award damages