2. (1.5 points)

    a.   (0.75 point)

      Based on two relevant criteria, propose and briefly justify an appropriate exposure base for a general liability policy for a restaurant.

    b.   (0.75 point)

      Based on two relevant criteria, propose and briefly justify an appropriate exposure base for a hospital professional liability policy.

QUESTION 2	
TOTAL POINT VALUE: 1.5	**LEARNING OBJECTIVE: A2**
SAMPLE ANSWERS	

Part a: 0.75 point

Sample Answer 1

I propose using yearly revenue. This value should be directly proportional to expected loss and is practical since it's easy to obtain and verify as revenue for a business would be used in the company's financial statements.

Sample Answer 2

Sales is an appropriate exposure base for GL for a restaurant.
Practical – sales is an estimate that is tracked and filed with the IRS so it should be easy and inexpensive to obtain. This also prevents the insured from giving inaccurate estimate (moral hazard)
Historical precedence – sales is generally the industry standard for GL policies. If making a change to a new exposure base, there could be large premium swings for customers and large IT expenses so this may not be appropriate

Sample Answer 3

Payroll
Varies with the hazard – the larger the payroll would imply more employees for more business/customers and risk exposure
Verifiable – easy to obtain from company's payroll information

Part b: 0.75 point

Sample Answer 1

I propose using number of patients as an exposure base for a hospital's professional liability policy.
1. Number of patients is directly proportional to expected losses, as the greater number of patients seen by a hospital results in a greater amount of liability risk to the hospital.
2. Number of patients should also be easy to obtain and verify and hard to manipulate given the hospital should have a robust system to track patents checking in and out.

Sample Answer 2

Proposal: number of doctors and nurses on staff.
1. Based on proportionality to losses, this would be a good exposure base since more doctors or nurses on staff would be able to see and treat more patients, resulting in more exposure to potential liability claims.
2. Based on practicality, the number of doctors and nurses on staff is easy to obtain from the

hospital and to verify.

Sample Answer 3

Payroll for medical professionals
1. Practical - payroll is objective and easy to measure and verify.
2. Proportional to expected loss because higher payroll likely means more doctors/professionals which means increased chance of a loss.

Sample Answer 4

Exposure base: number of physician-years
This exposure base is directly proportional to expected loss because the more physicians working and employed, the more likely there will be loss. It is also a practical exposure base because the number of physicians is very easy to verify, it is well-defined and inexpensive to obtain this information.

Sample Answer 5

I would recommend using occupied beds as an exposure base for a hospital professional liability policy. Since this is an exposure base that is commonly used in the industry for this line of business, it would be "considerate of historical precedence" for many insurance companies and no expenses would be incurred due to making a change to the exposure base. It is also proportional to expected loss since your liability increases with every new patient.

Sample Answer 6

Hospital - use revenue as an exposure base.
1. Practical - hospital needs to report revenue for tax purposes and the cost of procedures are normally billed to patient insurance carriers, so data is available at least two ways.
2. Proportional to loss - higher revenue implies more patients and thus more opportunity for loss or higher risk procedures which also would have a higher chance of loss.

EXAMINER'S REPORT

Part a

Candidates are expected to know what an exposure base is and the three criteria for a good exposure base. To receive full credit, candidates must propose a valid exposure base specifically for a restaurant GL policy (not just GL policies in general) and provide justification based on two of the three criteria. If a candidate proposed payroll as the exposure base and used proportional to expected losses as a justification, then there must be a link that increased/decreased payroll is correlated with increased/decreased customers.

A common error was the proposal of square footage as an exposure base which received partial

credit if accompanied by valid justification. Even though square footage is used for some GL policies, it is not appropriate for restaurants. The exposure base should be responsive to any change in exposure to risk, and square footage is not response to exposure for restaurants. Another common error was the proposal of number of customers/meals as an exposure base which received partial credit if accompanied by valid justification. Use of number of customers/meals would not be practical.

Part b

Candidates were expected to demonstrate an understanding of exposure bases and the criteria used to assess their appropriateness, using two relevant criteria to justify their selection. To receive full credit, the recommended exposure base had to have a clear link to hospital professional liability (e.g., number of medical professionals, number of patients, number of occupied beds, etc.), and had to be briefly justified using two relevant criteria.

Many candidates did well on this part of the question, with over half receiving full credit. Candidates lost points where the recommended exposure base was either likely to be unresponsive to changes in underlying exposure (e.g., number of beds) or impractical to obtain and verify (e.g., hours worked). There also seemed to be confusion among a small subset of candidates around the meaning of physician-years, with many of those who proposed this as an exposure base identifying it as a measure of physician experience (i.e., years in practice) rather than number of physicians. No credit was awarded in these instances.