The following errors have been found in the first printing of *Foundations of Risk Management and Insurance*, 1st edition:

Page	Notes/Location	Error	Correction
2.25	2nd paragraph, 5th line	…professional will often use the mean, or expected value, as the single…	…professional will often use the mean as the single…
2.46	Last two sentences of first paragraph	In this example, expected total dollar losses would be $1,878.33 and the worst-case scenario could be $7,950.00. These estimates could then be used to determine the appropriate risk management techniques for managing these loss exposures, such as evaluating whether to insure the loss exposures for the premium the insurer is charging.	In this example, expected total dollar losses would be $1,878.33 and the worst-case scenario could be calculated as $7,950.00, using F9 in the exhibit (F10 was not used, given its low probability). These estimates could then be used in managing these loss exposures, such as evaluating whether to insure the loss exposures for the premium an insurer is quoting.
3.18 and 3.19	3.18: second paragraph, 5th line. 3.19: DA 02643	"…protection, and environment…" and "External Environment"	Both instances of environment should say "external exposure".
4.5	Fourth bullet point should be deleted	Managing Expenses	
6.4	DA 02742: 4th column is incorrect; 5th column should be removed.		See DAs following this table.
6.5	DA 02743: 3rd and 4th columns are incorrect		See DAs following this table.
6.8	DA 02746: Multiple corrections		See DAs following this table.
6.8	1st paragraph, 2nd sentence	The loss distribution is the same as that shown in the "Rachel's Loss Distribution" exhibit.	The loss distribution is the same as that shown in the "Loss Distribution for Pools" exhibit.
6.8	2nd paragraph, 2nd sentence	In this case, that means the insurer must have at least $18,986 to pay for losses to Rachel's policy.	In this case, that means the insurer must have at least $18,986 to pay for losses to Rachel's policy (calculated as $744 + [2 × $9,121]).

6.8	3rd paragraph	If the insurer sells ten identical policies to ten independent insureds, the resources needed to pay losses that are two standard deviations above the expected loss of $7,440 are $65,126. With ten policies, the initial capital still provides more than enough capacity. However, if the insurer sold 1,000 policies, it would need $1,320,862 to be able to pay losses two standard deviations above the expected losses of $744,000. In this case, the initial invest-ment of $1 million does not provide enough capacity. Therefore, the insurer would need to charge an extra $321 per policy to cover its desired contingencies. The additional $321 would be above expected losses, expenses, and profit margins and would be the retained portion of the premium necessary to meet the desired capacity.	If the insurer sells ten identical policies to ten independent insureds, the resources needed to pay losses that are two standard deviations above the expected loss of $7,440 are $65,126 (calculated as $7,440 + [2 × $28,843]). With ten policies, the initial capital still provides more than enough capacity. However, if the insurer sold 1,000 policies, it would need $1,320,862 (same calculation method) to be able to pay losses two standard deviations above the expected losses of $744,000. In this case, the initial investment of $1 million does not provide enough capacity. Therefore, the insurer would need to charge an extra $321 per policy to cover its desired contingencies.
8.10	DA 06036	The 6th through the 8th rows of the 6th column are blank. The total for the 6th column is $1,875.	The 6th row of the 6th column should be: 187.5* The 7th row of the 6th column should be 125* The 8th row of the 6th column should be 62.5* The total of the 6th column should be $2,250 The DA should include this footnote: *For each of the three expected values of insured losses, the prob-ability of loss is multiplied by $25,000 (the maximum amount payable) instead of the average bin values.
8.11	5th full paragraph	If the severity distribution that the insurer faces stops at $25,000, the expected value of that distribution is now $1,875. With the same frequency distribution as used previously, the expected loss is now $375 [(0.8 × $0) + (0.2 × $1,875) = $375], and, assuming the same expense loading, the premium would be $625 [$375 ÷ (1 − 0.4) = $625]. For a policy limit of $25,000, the insurer is offering 250 units of coverage with a rate of $2.50 per unit of coverage. This is substantially higher than the $0.63 per unit rate that was calculated when the property insurance limit was equal to the property's total value.	If the severity distribution that the insurer faces stops at $25,000, the expected value of that distribution is now $2,250. With the same frequency distribution as used previously, the expected loss is now $450 [(0.8 × $0) + (0.2 × $2,250) = $450], and, assuming the same expense loading, the premium would be $750 [$450 ÷ (1 − 0.4) = $750]. For a policy limit of $25,000, the insurer is offering 250 units of coverage with a rate of $3.00 per unit of coverage. This is substantially higher than the $0.63 per unit rate that was calculated when the property insurance limit was equal to the property's total value.

Rachel's Loss Distribution

Size of Loss (X)	Probability (p)	Expected Loss (p × X)	Standard Deviation
$ 0	0.855	$ 0	$0
100	0.04	4	19
500	0.04	20	96
1,000	0.02	20	139
2,500	0.02	50	346
5,000	0.01	50	495
10,000	0.01	100	990
100,000	0.005	500	$7,036
		$744	$9,121

[DA02742]

Loss Distribution for Pools

Number of Members in Pool (n)	Expected Loss		Standard Deviation	
	Pool	Per Member	Pool	Per Member
1	$ 744	$744	$ 9,121	$ 9,121
2	$ 1,488	$744	$ 12,899	$ 6,450
10	$ 7,440	$744	$ 28,843	$ 2,884
100	$ 74,400	$744	$ 91,210	$ 912
1,000	$ 744,000	$744	$ 288,431	$ 288

[DA02743]

Pooling and Capital Requirements

Insurer's initial capital = $1,000,000.

Number in Pool	Expected Loss		Standard Deviation		Resources Needed to Pay Losses Two Standard Deviations From the Expected	Additional Resources per Policy
	Pool	Per Member	Pool	Per Member		
1	$ 744	$744	$ 9,121	$9,121	$ 18,986	$ 0
10	$ 7,440	$744	$ 28,843	$2,884	$ 65,126	$ 0
1,000	$744,000	$744	$288,431	$ 288	$1,320,862	$321

[DA02746]