

AAI 82A

Multiple-Lines Insurance Production

Segment A

Commercial Liability Insurance

COURSE LEADER HANDBOOK

Third Edition, 2006

© American Institute for CPCU/Insurance Institute of America
720 Providence Road
Malvern, PA 19355
Phone (610) 644-2100 • www.aicpcu.org

Contents

Appendix A—Learning Activities

- 1 Introduction
- 2 Assignment 1—Commercial General Liability Insurance, Part I
- 4 Assignment 2—Commercial General Liability Insurance, Part II, and Other Important Liability Insurance
- 5 Assignment 3—Commercial Automobile Insurance
- 6 Assignment 4—Garage and Motor Carrier Insurance

Appendix A

Learning Activities

Introduction

This section provides some case studies and exercises for each assignment. The material is geared specifically toward this course. Not all assignment objectives will be covered, so you should supplement these exercises with your own material. Module four of the general course leader handbook provides some ideas on how you can create your own exercises.

Students can work on these exercises as a class; they can also work on them in small groups or independently, reporting back their solutions. To add variety in the classroom, include both group and individual work in each class.

In the segment format, you should not expect to conduct more than one or two of these exercises in any single session. A tremendous amount of material is in this segment, and if you have only one day to present information to your class, you may be forced to mainly lecture.

Special Notes

As mentioned, all assignment objectives are not addressed in this handbook. The ones addressed were chosen randomly. They are not of any greater or lesser importance than any other assignment objective.

Vocabulary is a very important part of Institutes exams and is vital to good communication in the industry. While none of the exercises in this handbook specifically address the key words and phrases, you should incorporate them into the exercises that are provided. You may also want to create your own exercises to specifically address them to each assignment.

Assignment 1—Commercial General Liability Insurance, Part I

The following case will be used throughout this segment. An ISO Commercial General Liability Coverage Form would be helpful to the students. If you have access, provide them with a copy. Be sure it is the same edition date as used in the textbook.

Your insured is a large chain of department stores located in multiple states. The stores sell men's, women's, and children's clothing; linens; jewelry; cosmetics; luggage; furniture; household items, such as china, silver, artwork, and lamps; and the like. Rather than compete directly with other national retail chains, the firm has intentionally avoided large urban locations for its retail stores, instead favoring "second-tier" cities. The department store firm has a large, highly automated warehouse located in one of the states. The warehouse is approximately 500,000 square feet and the building is equipped with an automatic sprinkler system. Inventory is received at the warehouse from manufacturers and vendors and is then distributed to the individual store locations. Distribution from the warehouse is handled using company-owned trucks. In some cases, the manufacturers of the products ship their goods directly to the stores using their own trucks or a common carrier. Information of such direct shipments is sent electronically to the warehouse for tracking purposes. Large amounts of merchandise are purchased from overseas and are shipped via air or water. Most of these shipments are received in San Francisco or New York and must be sent to the warehouse via truck or rail transportation. The warehouse is located near a railroad track, and there is a spur to the loading dock. Each store location uses a point-of-sale system to track inventory. Information is uploaded from the store to the warehouse every night. The firm employs a large information technology (IT) staff.

In addition to retail stores, the firm also uses e-commerce, and a large percentage of sales is derived from the online catalog. Paper catalogs are also sent out on a mass-mailing basis, and orders are received via fax and mail. The firm also has a call center located in the warehouse to process telephone orders. The call center uses sophisticated telephone equipment. Orders received electronically or by fax, mail, or phone are shipped using a common carrier, often within twenty-four hours of receipt.

The retail stores consist of a mixture of leased and owned buildings. Some are located in malls, while others are freestanding buildings. In mall locations, the stores are not the key tenant and depend upon other, larger retailers to attract customers to the mall. Stores are open from 9:00 AM to 9:00 PM each day, except Sunday when they close at 6:00 PM. At the warehouse, the firm employs 100 people who handle inventory, loading and unloading, shipping, clerical work, and sales. A fully-staffed human resources department handles the administration of various employee benefit plans, including group health insurance, life insurance, and disability. A 401(k) pension plan is in place for all full-time personnel. Each store has between twenty-five and fifty employees, mostly consisting of part-timers who are mainly college students. The store manager and assistant manager are responsible for hiring decisions for their stores.

Customers typically pay with cash, checks, personal credit cards, or the department store chain's own credit card that was developed years ago. The store credit card offers cash rebates to customers who spend a certain amount during any calendar year. Cash, checks, and charge receipts are picked up by an armored car service each day and taken to the bank. Each store has a surveillance camera system installed to detect shoplifting, which has been a problem in the past. The store also uses off-duty undercover police officers who pose as shoppers.

The jewelry department, shoe department, restaurant, and hair salon located in the larger stores are not operated by your insured but are leased to others. The insured is compensated by a percentage of the sales received by the lessee. The sporting goods department is one of the most profitable areas of the business. The insured provides repair and maintenance for ski equipment, snowboards, tennis rackets, bowling balls, and similar types of sporting goods, even if the merchandise was purchased from a competitor. The insured also fills scuba tanks. Since this repair work requires expensive, specialized equipment, the insured sometimes must ship the items to the four store locations that have the appropriate equipment.

The firm is publicly traded and has a board of directors consisting of both insiders and outsiders. The officers of the corporation are selected by the board. A major accounting firm is used to perform routine audits and prepare necessary Securities and Exchange Commission (SEC) and other financial filings. Employees are eligible to purchase stock at a discount as an additional employee benefit.

Case Study

Relates to Assignment Objective 1

Describe the liability loss exposures a typical business faces.

Using the case shown above, have the class identify specific loss exposures in each of the four major areas: premises and operations, products and completed operations, contractual liability, and independent contractors.

Small Group Exercise

Relates to Assignment Objective 7

Describe the exclusions in the CGL Coverage form and the purposes for them.

One of the most important things to understand when studying the CGL form is how the coverage is really defined by the exclusions.

Using the chart on page 1.27 of the text, divide the class into small groups. Assign an exclusion to each group (if your class is small, you may have to assign several to each group). Have the groups spend ten to fifteen minutes discussing the nature of the exclusion, its purpose, and whether or not coverage can be provided using an endorsement or a separate policy. Also have them provide an example where coverage would not be provided to an insured due to the exclusion. They should report their discussion to the class and summarize the applicable exclusion. It is important that they also share the example with the class.

Assignment 2—Commercial General Liability Insurance, Part II, and Other Important Liability Insurance

Case Study

Relates to Assignment Objective 2

Explain how various endorsements are used to modify CGL coverage.

Using the case in Assignment 1, break the students into groups and have them identify the specific endorsements they would recommend for this insured and why they would be appropriate. Have the groups present their answers to the class.

Case Study

Relates to Assignment Objective 5

Explain the operation of claims-made coverage forms and endorsements.

Create several very short case studies that involve a combination of occurrence and claims-made policies for a single insured. You can vary the retroactive date on any claims-made policy. Use specific dates for each policy and have different loss dates as well. Draw a chart similar to the one in the textbook and have the class identify which, if any, of the policies would apply in each loss situation. Be sure to include some losses that either take place or are reported after the policy period.

Case Study

Relates to Assignment Objective 6

Describe various professional liability coverages.

Relates to Assignment Objective 7

Describe professional liability coverage for the other professions and occupations presented.

Using the case in Assignment 1, have the class identify the loss exposures to which ERPL and other professional liability policies might apply.

Assignment 3—Commercial Automobile Insurance

Case Study

Relates to Assignment Objective 1

Given a case, tailor the business auto coverage (BAC) to address the specified exposures.

Using the case in Assignment 1, have the class work together or in small groups to identify the automobile loss exposures of this insured. Have them also identify any options or endorsements they would recommend along with the BAC.

List Mix-Up

Relates to Assignment Objective 2

Outline the rating steps applicable to determine liability and physical damage premiums for all types of autos under the BAC.

Using large Post-it Notes, write each of the various rating factors on a separate sheet. Place them on the wall and ask the class to rearrange them so they are in the appropriate order. For example, Radius Class should be on one sheet, with “local”, “intermediate”, and “long distance” on other sheets. Size Class should be on another sheet, with the nine classes. Have the group first identify which rating factor belongs with which heading, and then arrange them in order from lowest to highest rating.

Case Study

Relates to Assignment Objective 3

Given a business auto case, prepare a proposal for submission to an underwriter.

Modify the cases in the text and have the class discuss the BAC exposures and appropriate coverage for those exposures, including the supplemental information they would include when making a submission to an underwriter for each account.

Assignment 4—Garage and Motor Carrier Insurance

Complete-A-Chart Exercise

Relates to Assignment Objectives 2 and 3

Given a case, tailor the garage or motor carrier policies to address the specified exposures.

Using the following chart, have the class complete a comparison of the BAC, discussed in the previous assignment, with the Garage Policy and the Motor Carrier Coverage Form. You could easily discuss the entire chapter in this format.

	BAC	GARAGE	MOTOR CARRIER
Eligibility			
Policy Sections			
Covered Auto Symbols			
Exclusions			
Options and Endorsements			

Group Discussion

Relates to Assignment Objective 4

Describe the prerequisites a producer must meet before prospecting for garage or motor carrier clients.

Divide the class into three groups and assign each group one of the following categories. Have them discuss how they would, as producers, attack garage and motor carrier business as a niche.

Group 1: Learn as much as possible about the special needs of these classes of business

Group 2: Match the prospects with insurers who are willing to write the business

Group 3: Understand the policies involved, including how coverage is rated

