

# INS 23

# Appendix B

## Commercial Insurance

### **COURSE LEADER HANDBOOK**

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# Appendix B

## Quizzes

### Introduction

One quiz per assignment is provided in this section. A sample answer key is also provided. Please note that because the quiz is in the essay format, the answer key might not address all possible answers. If you want a longer quiz, you might want to supplement with questions from the course guide or SMART exam disk. For tips on creating quiz questions, see page 11 of the general Course Leader Handbook.

# Assignment 1—Quiz

1. Name four items that would appear on a declarations page. (4 points)
2. Who is the only insured authorized to cancel a policy? (1 point)
3. May the insured transfer any rights or duties to another party? (2 points)
4. What is a package modification? (2 points)
5. What is a package policy? (1 point)
6. Explain what types of property and perils crime insurance covers. (2 points)
7. Name six commercial insurance lines of business. (6 points)

8. Is the insurer permitted to examine the insured's books and records? (2 points)
9. Are insurance company inspections and surveys considered safety inspections? Explain your answer. (3 points)
10. Can the policy be changed only by written endorsement by the insurance company? (2 points)

# Assignment 1—Quiz Answers

1. Name four items that would appear on a declarations page. (4 points)

**Answers:** (any four)

- Policy number
- Names of insurance company and producer
- Name, address, and business description of the insured
- Effective date of the policy
- Premium for each coverage part
- Total premium

2. Who is the only insured authorized to cancel a policy? (1 point)

**Answer:** First named insured

3. May the insured transfer any rights or duties to another party? (2 points)

**Answer:** No, unless the insured authorizes with written consent.

4. What is a package modification? (2 points)

**Answer:** A factor (such as .80) that is multiplied by the regular policy premium of any CPP that includes both property and liability coverages, resulting in a premium discount.

5. What is a package policy? (1 point)

**Answer:** Policy that covers two or more lines of business.

6. Explain what types of property and perils crime insurance covers. (2 points)

**Answer:** Crime insurance covers property and perils that are often excluded by most Commercial property policies. For example, money and securities are generally excluded types of property and employee dishonesty is almost always an excluded cause of loss in commercial property policies. (Other examples are acceptable.)

7. Name six commercial insurances lines of business. (6 points)

**Answer:** (Any six)

Commercial property, business income, crime, equipment breakdown (boiler and machinery), inland and ocean marine, commercial general liability, commercial auto, businessowners, farm, workers compensation and employers liability, excess and umbrella liability, professional liability, aircraft, environmental, surety bonds.

8. Is the insurer permitted to examine the insured's books and records? (2 points)

**Answer:** Yes, for up to three years after termination of the policy.

9. Are insurance company inspections and surveys considered safety inspections? Explain your answer. (3 points)

**Answer:** No. The company surveys and inspections are meant for underwriting purposes for the benefit of the insurer. The inspections and surveys provision makes it clear that the insurer does not make safety inspections, does not guarantee that conditions are safe or healthful, and does not guarantee that the insured is in compliance with safety or health regulations.

10. Can the policy only be changed by written endorsement by the insurance company? Explain. (2 points)

**Answer:** Yes. This is true even when the request is made by the insured. The key is that the insurer is the party endorsing the policy.

## Assignment 2—Quiz

1. What is the formula for calculating the loss payment when the amount of insurance carried does not meet the coinsurance requirement? (2 points)
2. Define the functional replacement cost endorsement. (2 points)
3. True or False—The insurer is not obligated to pay replacement cost until the property has been repaired or replaced and then only if the repair or replacement is completed in a reasonable time. (1 point)
4. Explain the importance of the proper reporting of values on value reporting forms. (2 points)
5. Contrast specific insurance with blanket insurance for building and personal property. (2 points)
6. Explain why most risk managers and consultants regard the combination of the agreed value option with blanket insurance as the preferred method to provide property insurance. (2 points)

## Assignment 2—Quiz Answers

1. What is the formula for calculating the loss payment when the amount of insurance carried does not meet the coinsurance requirement? (2 points)

**Answer:**

$$\text{Loss Payment} = \left( \frac{\text{Amount of insurance carried}}{\text{Amount of insurance required}} \times \text{Loss} \right) - \text{Deductible.}$$

2. Define the functional replacement cost endorsement. (2 points)

**Answer:** Endorsement that indicates the cost of replacing damaged property with similar property that performs the same function but might not be identical to the damaged property.

3. True or False—The insurer is not obligated to pay replacement cost until the property has been repaired or replaced and then only if the repairs or replacement is completed in a reasonable time. (1 point)

**Answer:** True

4. Explain the importance of proper reporting of values on value reporting forms. (2 points)

**Answer:** Proper reporting is important to avoid penalties to the insured for failure to comply with the reporting requirements. Separate rules apply when no report is made, when one or more reports are due after the initial report, and when the reports are inaccurate.

5. Contrast specific insurance with blanket insurance for building and personal property. (2 points)

**Answer:** Specific insurance is insurance that covers each building for a specific limit of insurance and personal property at each building for a specific limit of insurance. Blanket insurance is insurance that covers with one limit either two or more types of property (such as buildings and business personal property) or one or more types of property at more than one location.

6. Explain why most risk managers and consultants regard the combination of the agreed value option with blanket insurance as the preferred method to provide property insurance. (2 points)

**Answer:** The agreed value clause avoids any coinsurance penalty, and if separate locations are involved that are not subject to the same loss, the danger of underinsurance is greatly reduced.

## Assignment 3—Quiz

1. Define and give an example of (a) concealment and (b) misrepresentation. (4 points)
2. Explain how subrogation works. (2 points)
3. What does the Spoilage Coverage Endorsement cover? (3 points)
4. What provides flood coverage for buildings and contents in eligible communities? (1 point)
5. Contrast specific rating and class rating of commercial property exposures. (2 points)

## Assignment 3—Quiz Answers

1. Define and give an example of concealment and misrepresentation. (4 points)

**Answers:**

- a. Concealment is a failure to disclose a fact. For example, when the insured is asked to list the operations in his delicatessen that is being insured, he fails to mention that deep frying is one of the activities.
- b. Misrepresentation is a misstatement of a fact. For example, when asked if the deli performs delivery service, the insured says “no” even though he delivers daily to a local office building.

2. Explain how subrogation works. (2 points)

**Answer:** To expedite payment to an insured, sometimes an insurer will pay the claim to its insured, even though another party is at fault. Through the subrogation condition in the policy, the insurer then has the right to recoup its expenses from the at-fault party.

3. What does the Spoilage Coverage Endorsement cover? (3 points)

**Answer:** Damage to perishable stock due to power outages; on-premises breakdown; or contamination of the insured’s refrigerating, cooling, or humidity control equipment.

4. What provides flood coverage for buildings and contents in eligible communities? (1 point)

**Answer:** The National Flood Insurance Program

5. Contrast specific rating and class rating of commercial property exposures. (2 points)

**Answer:** Specific rating bases a building’s property insurance rate on the inspection and evaluation of that particular building, whereas class rating uses the average probability of loss for businesses within large groups of similar risks.

## Assignment 4—Quiz

1. What types of businesses would consider purchasing only extra expense coverage? (2 points)
2. Describe the four types of dependent property exposures which usually result when the business has a business relationship with them. (4 points)
3. Why is business income coverage rated for premium determination like building and personal property coverages? (2 points)
4. What three aspects of coverage modify business income coverage base rates? (3 points)
5. What is net income? (1 point)
6. Give two examples of expenses that continue after a business interruption. (2 points)
7. Define business income. (2 points)



## Assignment 4—Quiz Answers

1. What types of businesses would consider purchasing only extra expense coverage? (2 points)

**Answer:** Businesses that must return to operation very quickly, even if they are not operating at 100% capacity, such as banks and newspapers.

2. List and briefly describe the four types of dependent property exposures which usually result when the business has a business relationship with them. (4 points)

**Answer:**

- 1) Contributing location—Furnishes materials or services to the insured
- 2) Recipient location—Purchases materials or services from the insured
- 3) Manufacturing location—Manufactures products for delivery to the insured's customers
- 4) Leader location—Attracts customers to the insured's location (such as a major department store at a shopping center)

3. Why is business income coverage rated for premium determination like building and personal property coverages? (2 points)

**Answer:** The same perils that damage covered property also cause business income losses.

4. What three aspects of coverage modify business income coverage base rates? (3 points)

**Answer:**

- 1) Type of business insured
- 2) Coinsurance percent used
- 3) Coverage options insured chooses

5. What is net income? (1 point)

**Answer:** Net income = Revenues – Expenses.

6. Give two examples of expenses that continue after a business interruption. (2 points)

**Answer:** Payroll, taxes, insurance, utilities (other answers may also be acceptable).

7. Define business income. (2 points)

**Answer:** The sum of net profit or loss that would have been earned or incurred if operations had not been suspended PLUS normal operating expenses, including payroll, that continue during the suspension.

8. Why would an insured request the Ordinary Payroll Limitation or Exclusion? (2 points)

**Answer:** To reduce the amount of insurance required to meet the coinsurance requirements.

9. What endorsement provides coverage for the additional time required to comply with building ordinances or laws? (1 point)

**Answer:** Ordinance or Law—Increased Period of Restoration Endorsement

## Assignment 5—Quiz

1. For each of the following loss situations, identify (i) the crime involved, and (ii) the crime insuring agreement, if any, that would apply: (6 points)
  - a. As the driver of an armored car carried bags of money from a supermarket, two people threatened her with guns and took the bags of money.
  - b. An office safe was broken into, and securities valued at \$10,000 were taken.
  - c. A payroll department employee issued himself two paychecks, instead of one, for six months before being caught.
  
2. Explain why equipment breakdown coverage is needed even if an insured has BPP coverage. (2 points)
  
  
  
  
  
  
  
  
  
  
3. There was a violent explosion of a steam boiler and the insured's building was damaged as a result. Would both be covered under equipment breakdown coverage? Explain. (2 points)
  
  
  
  
  
  
  
  
  
  
4. Explain how the testing exclusion can affect coverage. (2 points)
  
  
  
  
  
  
  
  
  
  
5. How is the valuation of covered property under equipment breakdown normally handled, subject to some exceptions? (1 point)
  
  
  
  
  
  
  
  
  
  
6. Explain how the suspension condition works. (2 points)

## Assignment 5—Quiz Answers

1. For each of the following loss situations, identify (i) the crime involved, and (ii) the crime insuring agreement, if any, that would apply: (6 points)
  - a. As the driver of an armored car carried bags of money from a supermarket, two people threatened her with guns and took the bags of money.  
**Answer:** This is an example of robbery (taking property from someone by causing or threatening bodily harm). The appropriate form would be insuring agreement 5 “Outside the Premises” Coverage, because the property is in the care or custody of the armored car driver and the loss occurred inside the U.S.
  - b. An office safe was broken into, and securities valued at \$10,000 were taken.  
**Answer:** This is an example of safe burglary (taking property from within a locked safe or vault by someone who unlawfully enters the safe, with evidence of forced entry). The appropriate coverage would be insuring agreement 3 “Inside the Premises—Theft of Money and Securities.”
  - c. A payroll department employee issued himself two paychecks, instead of one, for six months before being caught.  
**Answer:** This is an example of embezzlement, or employee dishonesty, (an employee unlawfully taking money from the employer). The appropriate coverage form would likely be insuring agreement 1 “Employee Theft.”
2. Explain why equipment breakdown coverage is needed even if an insured has BPP coverage. (2 points)  
**Answer:** Because the BPP excludes loss due to electrical breakdown, mechanical breakdown, and steam boiler explosion. These can damage not only the equipment that breaks down, but other property as well.
3. There was a violent explosion of a steam boiler and the insured’s building was damaged as a result. Would both be covered under equipment breakdown coverage? Explain. (2 points)  
**Answer:** Yes. Equipment breakdown coverage covers not only damage to the equipment itself, but also damage caused by the equipment breakdown to any property that the named insured owns.
4. Explain how the testing exclusion can affect coverage. (2 points)  
**Answer:** Many policies exclude damage to covered equipment if caused when performing an electrical or pressure test. These situations are riskier than normal equipment operations.
5. How is the valuation of covered property under equipment breakdown normally handled, subject to some exceptions? (1 point)  
**Answer:** Replacement cost basis
6. Explain how the suspension condition works. (2 points)  
**Answer:** This allows the insurer to immediately suspend insurance on losses arising from an accident involving a piece of equipment if that piece of equipment is found to be in a dangerous condition.



6. Lee owns a laundry and dry cleaning store, which is under a bailees' customers policy. What coverage is provided by Lee's policy? (2 points)

7. What are contract carriers? (2 points)

## Assignment 6—Quiz Answers

1. With regard to ocean marine insurance, contrast a voyage policy with a time policy. (4 points)

**Answer:** Both voyage and time policies are types of ocean marine hull insurance. A voyage policy covers a specified voyage “at or from” a named port. This type of policy is normally used for ships on high-risk voyages, or ships that operate irregularly or on nonestablished routes. Time policies cover an insured vessel for a specified time period—usually a year—regardless of the number of voyages within that time frame.

2. What does the sue and labor clause cover? (2 points)

**Answer:** It covers the cost of reasonable measures that the insured is required to take to protect property from damage at the time of loss.

3. In ocean marine insurance, what is the typical valuation of an ocean shipment? (2 points)

**Answer:** Value amount of invoice + Freight + 10%.

4. True or False—Under maritime law, all parties to the venture, including the shipowner and all cargo owners, are required to share the losses of the owners whose property was sacrificed in a jettisoned situation. (1 point)

**Answer:** True

5. Define the following terms: (3 points)

- a. Bill of lading

**Answer:** The contract between the shipper and the carrier. This contract may limit the shipper’s recovery for cargo loss.

- b. Straight bill of lading

**Answer:** A bill of lading that fixes no limit on the amount of recovery.

- c. Released value bill of lading

**Answer:** A bill of lading that limits recovery to a specified amounts, usually quoted as dollar limits per pound or parcel.

6. Lee owns a laundry and dry cleaning store, which is under a bailees’ customers policy. What coverage is provided by Lee’s policy? (2 points)

**Answer:** This policy covers damage to customers’ property without regard to the bailee’s liability. This is often termed “goodwill insurance” because it allows the bailee to pay for a bailor’s loss, even when there is technically no legal obligation to do so.

7. What are contract carriers? (2 points)

**Answer:** Carriers that furnish transportation services to shippers with whom they have contracts.

## Assignment 7—Quiz

1. What is civil law? (2 points)
  
2. Gamma Corporation, a manufacturer of small home appliances, is insured under a commercial general liability (CGL) coverage form written on an occurrence basis. Gamma's CGL policy contains the following coverages:
  - Coverage A: Bodily Injury and Property Damage Liability
  - Coverage B: Personal and Advertising Injury Liability
  - Coverage C: Medical Payments
  - Supplementary Payments

For each of the following losses that occurred during the policy period, indicate whether Gamma's CGL policy would provide coverage. If a loss is not covered, explain why. If a loss is covered, identify which of the above coverage sections would apply. (8 points)

- a. Gamma placed an ad in a national magazine that made inaccurate and unfavorable statements about a competitor's product that Gamma believed to be true. The competitor successfully sued Gamma for libel.
  
- b. A defective Gamma product was withdrawn from the market. Gamma not only lost a considerable amount in potential sales but also spent a good deal of money to remove the product from various stores.
  
- c. A visitor to Gamma's corporate office suffered a broken arm after she slipped and fell. The visitor admitted that the fall was her fault and that Gamma was not negligent in any way. Gamma would like to pay for the visitor's medical expenses as a goodwill gesture.

d. Gamma hosted a holiday party for its employees. An employee became intoxicated at the party and, while driving home, struck and injured a pedestrian. A judge ordered Gamma to pay damages to the pedestrian.

3. In your own words, describe the tort of negligence. (2 points)

4. Does negligence come into play in “strict liability” situations? Explain. (2 points)

5. Define premises liability exposure. (2 points)

6. Define occurrence as stated in a typical CGL policy. (2 points)

## Assignment 7—Quiz Answers

1. What is civil law? (2 points)

**Answer:** Branch of the law that provides a means to settle disputes between parties.

2. Gamma Corporation, a manufacturer of small home appliances, is insured under a commercial general liability (CGL) coverage form written on an occurrence basis. Gamma's CGL policy contains the following coverages:

- Coverage A: Bodily Injury and Property Damage Liability
- Coverage B: Personal and Advertising Injury Liability
- Coverage C: Medical Payments
- Supplementary Payments

For each of the following losses that occurred during the policy period, indicate whether Gamma's CGL policy would provide coverage. If a loss is not covered, explain why. If a loss is covered, identify which of the above coverage sections would apply. (8 points)

a. Gamma placed an ad in a national magazine that made inaccurate and unfavorable statements about a competitor's product that Gamma believed to be true. The competitor successfully sued Gamma for libel.

**Answer:** This claim would be covered under Coverage B. This libel action is an example of personal injury liability.

b. A defective Gamma product was withdrawn from the market. Gamma not only lost a considerable amount in potential sales but also spend a good deal of money to remove the product from various stores.

**Answer:** This loss would not be covered because of the exclusion for recall of products.

c. A visitor to Gamma's corporate office suffered a broken arm after she slipped and fell. The visitor admitted that the fall was her fault and that Gamma was not negligent in any way. Gamma would like to pay for the visitor's medical expenses as a goodwill gesture.

**Answer:** Coverage C covers expenses incurred by the visitor, even though Gamma was not at fault.

d. Gamma hosted a holiday party for its employees. An employee became intoxicated at the party and while driving home, he struck and injured a pedestrian. A judge ordered Gamma to pay damages to the pedestrian.

**Answer:** This loss is covered under Coverage A. The liquor liability exclusion would not apply, because it applies only to insureds in the business of making, distributing, selling, serving, or furnishing alcoholic beverages.

3. In your own words, describe the tort of negligence. (2 points)

**Answer:** I have a duty to others. I breach that duty. Injury or damage occurs. There was a close connection between my actions, and the injury and damage.

4. Does negligence come into play in “strict liability” situations? Explain. (2 points)

**Answer:** No, negligence does not have to be proven. Strict liability is usually imposed for unusually dangerous or defective products, things, or activities.

5. Define premises liability exposure. (2 points)

**Answer:** Exposures to liability for injury or damage due to the ownership, occupancy, or use of premises.

6. Define occurrence as stated in a typical CGL policy. (2 points)

**Answer:** An accident, including continuous or repeated exposure to substantially the same general harmful conditions.



## Assignment 8—Quiz Answers

1. Clothing Store was insured under an ISO Commercial General Liability (CGL) Coverage Form that expired on September 30, the date Clothing Store went out of business. A customer who was injured at Clothing Store on September 15, during the store's final sale, made a claim for her injuries on October 15. Explain whether this loss would be covered if Clothing Store's CGL coverage had been provided on the following: (4 points)
  - a. A claims-made coverage form
  - b. An occurrence coverage form

**Answer:**

- a. It would be covered. Even though the claim was not made during the policy period, it was made within the automatic, sixty-day basic extended reporting period. The basic extended reporting period provides coverage for injuries occurring on or after the retroactive date and which are reported to the insurer within sixty days of policy expiration.
  - b. This would also be covered. The coverage trigger for an occurrence-based CGL policy is: Did the loss take place during the policy period? Here, the accident/occurrence giving rise to the loss took place on September 15, and the policy expired just over two weeks later on September 30. It meets the trigger test for occurrence coverage.
2. What is the purpose of the Liquor Liability Coverage Form? (2 points)

**Answer:** To provide liability coverage for a company in the business of manufacturing, selling, serving, or distributing alcoholic beverages.
  3. What type of business would purchase railroad protective liability coverage? (2 points)

**Answer:** An independent contractor working on or near railroad property, at the request of the railroad. Note that the coverage protects the railroad against losses arising from the contractor's operations.
  4. Define the term retroactive date, and explain why it is often important in claims-made versions of CGL policies. (3 points)

**Answer:** A retroactive date is the date on or after which injury or damage must occur in order to be covered under a claims-made policy. If the date of loss is before the retroactive date, then the claim is not covered, even if the claim is made during the policy span. If the claims-made policy contains no retroactive date, then this is a moot point. Most claims-made CGL policies, however, do contain a retroactive date, which often determines which losses are covered and which are not.

## Assignment 9—Quiz

1. Don's Delivery Service (DDS) is insured under an unendorsed Business Auto Coverage Form covering "owned autos only" for liability and physical damage. Would DDS's business auto policy pay for each of the following losses? Explain. (9 points)
  - a. While a DDS employee was driving out of DDS's dispatching center to make a delivery, he struck and injured a fellow DDS employee, resulting in a claim against DDS.
  
  
  
  
  
  
  
  
  
  
  - b. One week after DDS purchased a new delivery van, the van was involved in a collision and was extensively damaged. The purchase of the van had not been reported to DDS's insurer or agent.
  
  
  
  
  
  
  
  
  
  
  - c. At a customer's request, a DDS driver left delivered goods near the entrance to the customer's premises. Two hours later, a passerby stumbled over the goods and was injured. The passerby sued DDS.
  
  
  
  
  
  
  
  
  
  
2. Describe medical payments coverage under an auto policy. (2 points)
  
  
  
  
  
  
  
  
  
  
3. What is PIP coverage? (2 points)
  
  
  
  
  
  
  
  
  
  
4. Identify and briefly describe the primary rating factors for trucks, tractors, and trailers. (3 points)

5. Identify and describe the two options available when purchasing garagekeepers direct coverage.  
(4 points)

6. What is the Motor Carrier Coverage Form? (2 points)

## Assignment 9—Quiz Answers

1. Don's Delivery Service (DDS) is insured under an unendorsed Business Auto Coverage Form covering "owned autos only" for liability and physical damage. Would DDS's business auto policy pay for each of the following losses? Explain. (9 points)
  - a. While a DDS employee was driving out of DDS's dispatching center to make a delivery, he struck and injured a fellow DDS employee, resulting in a claim against DDS.
  - b. One week after DDS purchased a new delivery van, the van was involved in a collision and was extensively damaged. The purchase of the van had not been reported to DDS's insurer or agent.
  - c. At a customer's request, a DDS driver left delivered goods near the entrance to the customer's premises. Two hours later, a passerby stumbled over the goods and was injured. The passerby sued DDS.

**Answer:**

- a. This would not be covered, regardless of whether an owned or nonowned vehicle was involved. Commercial auto policies typically exclude coverage for injuries to fellow employees. These exposures are normally addressed through workers' compensation insurance and/or employers liability coverage. (DDS could amend or delete the "fellow employee" exclusion for a fee to allow coverage for co-worker claims, but the question states that DDS had an unendorsed policy.)
  - b. This would be covered. For symbols 1-6, coverage for newly acquired vehicles is automatic, without a requirement that the insurer or agent be notified immediately of the acquisition. (Normally, the insurer learns about newly acquired autos when it audits the insured at the end of the policy period. At that point, the insured may pay additional premium.)
  - c. This would not be covered due to the "handling of property" exclusion. There is no coverage for claims arising from handling property if the event occurs AFTER the property has been moved from the covered auto to the place where it is finally delivered to the insured. In this case, the insured left the goods at a spot designated by the customer. The customer stumbled over them two hours later. The injury did not occur during loading or unloading of the covered auto, but afterward.
2. Describe medical payments coverage under an auto policy. (2 points)

**Answer:** Coverage for medical expenses incurred by occupants of a covered auto, regardless of whether the auto's driver was at fault in the accident.
  3. What is PIP coverage? (2 points)

**Answer:** Coverage for medical expenses, income loss, and other benefits stipulated in an auto no-fault plan.

4. Identify and briefly describe the primary rating factors for trucks, tractors, and trailers. (3 points)

**Answer:**

- Size class—Determined by the gross weight of the vehicle
- Business use—The manner in which the vehicle is used
- Radius class—Farthest distance the vehicle travels from place of garaging

5. Identify and describe the two options available when purchasing garagekeepers direct coverage. (4 points)

**Answer:**

- 1) Garagekeepers direct excess provides physical damage coverage for customers' cars in the garage's care, custody, and control when the insured is legally liable. Pays excess over the customer's coverage.
- 2) Garagekeepers direct primary provides physical damage coverage for customers' cars in the garage's care, custody, and control without regard to the insured's liability. Pays excess over the customer's coverage.

6. What is the Motor Carrier Coverage Form? (2 points)

**Answer:** Insurance form that covers businesses that use autos to transport property of others or, in some cases, their own property.





## Assignment 10—Quiz Answers

1. Name three types of businesses that are ineligible for the BOP. (3 points)

**Answer:** (Any three. Other answers may be acceptable.)

Automobile businesses, bars/grills and large restaurants, manufacturing firms, places of amusement, one- to two-family dwellings, financial institutions.

2. One of your customers, Mike, has opened up his own private investigation company. Mike has a BOP. With a diversified but small business, Mike dabbles in more than just private detective work. He has always felt a hankering for other professions. He has asked you, his insurance agent, to fine-tune his coverages by procuring insurance with the specifications that follow:

For each item, explain whether you will be able to meet these specifications through a BOP. If not, explain your answer, because Mike will definitely want an explanation. (8 points)

- a. Professional liability coverage for Mike's physical therapist

**Answer:** You will not be able to accommodate this request. BOPs are not designed to provide professional liability coverage. (One exception is druggists liability, but the profession involved here is physical therapy.)

- b. Crime coverage in case Mike's assistant tries to steal cash or checks from the company's funds

**Answer:** You can provide this coverage by adding the Employee Dishonesty optional coverage to Mike's BOP.

- c. Automobile coverage on Mike's van

**Answer:** You cannot meet this request through a BOP. You can provide only hired and nonowned auto coverage to Mike through a BOP, via endorsement, for an additional premium. BOPs typically do not include automobile coverage.

- d. General aggregate limits equal to four times the size of the per occurrence limit

**Answer:** You cannot meet this request. The insuring agreement fixes the aggregate at two times the occurrence limit shown on the declarations page.

3. What is included under the collision peril on a farm policy? (3 points)

**Answer:** Collision damage to covered farm machinery, death of covered livestock resulting from contact with vehicles, and collision damage to other farm personal property.

4. What are the four additional perils covered under the basic causes of loss in the farm policy form? (2 points)

**Answer:** Theft, collision, earthquake (livestock only), flood (livestock only).

## Assignment 11—Quiz

1. Explain why the distinction between an *employee* and an *independent contractor* is important in workers compensation insurance. Your answer should include definitions of the italicized terms. (5 points)
2. What factors, other than employment status, determine whether a person's claim is compensable under a typical workers compensation statute? (2 points)
3. What is a retrospective rating plan? (2 points)
4. Although workers compensation statutes adopted by the various states and the District of Columbia cover most workers, federal statutes dealing with compensation of injured workers cover only some workers. Identify and briefly describe two such federal statutes. (4 points)

## Assignment 11—Quiz Answers

1. Explain why the distinction between an *employee* and an *independent contractor* is important in workers compensation insurance. Your answer should include definitions of the italicized terms. (5 points)

**Answer:** The distinction is crucial because generally, employers are NOT liable for workers compensation benefits to injured independent contractors; they ARE, however, liable for such benefits to injured employees. An independent contractor is one who performs work for hire but who delivers an end product or service, choosing the means and manner in which this result is achieved. Employees are subject to control by employers as to not only the product or service, but also how they deliver that product or service. An independent contractor controls the means and manner used to reach the end result.

2. What factors, other than employment status, determine whether a person's claim is compensable under a typical workers compensation statute? (2 points)

**Answer:** To be payable under a workers compensation law, a claim must result from an occupational injury or disease and arise out of and in the course of employment.

3. What is a retrospective rating plan? (2 points)

**Answer:** A rating plan that increases or decreases an insured's premium for a policy based on the insured's own losses during the same period.

4. Although workers compensation statutes adopted by the various states and the District of Columbia cover most workers, federal statutes dealing with compensation of injured workers cover only some workers. Identify and briefly describe two such federal statutes. (4 points)

**Answer:** (Any two are acceptable)

- Federal Longshore and Harbor Workers' Compensation Act, which covers injuries to maritime workers hurt while working on navigable waters, typically longshore workers and shipbuilders
- Jones Act, which covers job-related injuries of merchant seamen (crew members)
- Federal Employers' Liability Act (FELA), which covers on-the-job injuries of interstate railroad workers

## Assignment 12—Quiz

1. What are four common differences between professional liability and CGL policies? (4 points)
  
2. Give three examples of how insurance agents and brokers E&O coverage may apply. (3 points)
  
3. Explain the difference between malpractice coverage and E&O (errors and omissions) coverage. (2 points)
  
4. Otis Plumbing Corporation is bidding on a large contracting job involving the local school system, and it is applying for a surety bond. As the underwriter for the bond, you have a report that indicates the following:
  - The company is thinly capitalized, perhaps on the verge of bankruptcy.
  - All of Otis Plumbing's prior jobs have been small-scale residential tasks.
  - The one prior commercial project for which Otis Plumbing contracted was abandoned mid-project.
  - a. Identify and describe the "three Cs" involved in qualifying a principal under a surety bond. (3 points)
  
  - b. Evaluate Otis Plumbing as a risk using the "three Cs" as an underwriting yardstick. (3 points)

## Assignment 12—Quiz Answers

1. What are four common differences between professional liability and CGL policies? (4 points)

**Answer:**

- 1) Use of a claims-made trigger
- 2) Consent to settle requirements
- 3) Selection of defense counsel
- 4) Use of deductibles

2. Give three examples of how insurance agents and brokers E&O (errors and omissions) coverage may apply. (3 points)

**Answer:** (any three)

- Failure to properly advise the client regarding his or her insurance needs
- Failure to obtain insurance for a client in a timely fashion after agreeing to do so
- Failure to renew a policy at expiration without giving prior notice to the client
- Failure to properly advise the client regarding appropriate limits

3. Explain the difference between malpractice coverage and E&O coverage. (2 points)

**Answer:** Malpractice liability is typically used in referring to those professionals that have some physical contact with the human body (physicians, beauticians, etc.). By contrast, E&O liability generally refers to the liability of professionals that do not usually work with the human body or hygiene, such as engineers, lawyers, and insurance agents.

4. Otis Plumbing Corporation is bidding on a large contracting job involving the local school system, and it is applying for a surety bond. As the underwriter for the bond, you have a report that indicates the following:

- The company is thinly capitalized, perhaps on the verge of bankruptcy.
- All of Otis Plumbing's prior jobs have been small-scale residential tasks.
- The one prior commercial project for which Otis Plumbing contracted was abandoned mid-project.

- a. Identify and describe the “three Cs” involved in qualifying a principal under a surety bond. (3 points)

**Answer:** The “three Cs” of bond underwriting are:

- Capital—Does the principal have adequate funds and credit to finance and complete the project?
- Capacity—Does the principal have the expertise needed to complete the work?
- Character—What is the principal's reputation for keeping promises, even in the face of adversity?

b. Evaluate Otis Plumbing as a risk using the “three Cs” as an underwriting yardstick. (3 points)

**Answer:** Unfortunately, Otis Plumbing appears to fail all three Cs:

- Its lack of financial resources is a red-flag warning of an inability to complete the work.
- Its limited expertise in commercial-scope projects augurs poorly for success in completing work for the school district.
- Its prior foray in the commercial-project realm was a failure.