ACTEX

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ASSIGNMENT 1

OVERVIEW OF INSURANCE OPERATIONS

I. CLASSIFICATIONS OF INSURERS

A. Introduction
   1. Insurance – system where participants (e.g. individuals, families, businesses), make payments in exchange for commitment to reimburse specific types of losses in certain circumstances
   2. Insured – participants in system who benefit from reimbursement of covered losses
   3. Insurer – organization or entity that facilitates pooling funds and paying benefits
      a. The principal function of insurers: acceptance of risks that others transfer through insurance
      b. Core operations: 1) underwriting, 2) claims, and 3) marketing

B. Four Ways of Classifications of Property-Casualty Insurers
   1. Legal form of ownership
   2. Place of incorporation
   3. Licensing status
   4. Insurance distribution systems and channels

C. Classification Summary
   1. Legal form of ownership
      a. Proprietary
         i. Stock insurers
         ii. Lloyd's of London and American Lloyds
         iii. Insurance exchange
      b. Cooperative
         i. Mutual insurers
         ii. Reciprocal insurance exchanges
         iii. Fraternal organizations
         iv. Other cooperatives – captive insurers, risk retention groups, purchasing groups
      c. 691701Pools
         i. Pools
         ii. Government insurers
   2. Place of incorporation
      a. Domestic
      b. Foreign
      c. Alien
   3. Licensing status
      a. Admitted
      b. Nonadmitted
   4. Insurance distribution systems and channels
      a. Independent agency and brokerage marketing system
      b. Direct write marketing system
      c. Exclusive agency marketing system

D. Legal Form of Ownership
   1. Proprietary insurers
      a. Stock insurers – Owned by their stockholders, most prevalent type of propriety insurer in US

b. Lloyds associations – Lloyd's of London and American Lloyds
   i. Lloyd's of London is a marketplace, similar to stock exchange
   ii. Provides the physical and procedural facilities for members to write insurance
   iii. In the past, insurance each member wrote was backed by his/her personal fortune; now, more members are corporations and have only limited liabilities
   iv. Provides coverage for many unusual or difficulties loss exposure and underwrites much of global marine and aviation insurance
   v. American Lloyds associations are smaller and most are domiciled in Texas because of the favorable regulatory climate
   vi. Most were formed or have been acquired by insurers.
   vii. Members (underwriters) are not liable beyond their investment in the association
c. Insurance exchange – similar to Lloyds associations. Members can be individuals, partnerships, or corporations, and have limited liability

2. Cooperative Insurers – owned by policyholders and includes mutual insurers, reciprocal insurance exchanges, fraternal organization, and other cooperatives.
   a. Mutual insurer – an insurer that is owned by its policyholders and is formed as a corporation for the purpose of providing insurance to policyholders.
      i. Policyholders have voting rights
      ii. Some profit is retained to increase surplus
      iii. Excess profit is usually returned to policyholders
      iv. Includes some large national/regional insurers
   b. Reciprocal insurance exchange – an insurer owned by policyholders and is formed as an unincorporated association for the purpose of providing insurance coverage to its members (called subscribers), and managed by an attorney-in-fact.
      i. Members agree to mutually insure each other
      ii. Members share profits/losses in proportion of their purchased insurance
      iii. May be formed to receive favorable tax treatment
   c. Fraternal organizations resemble mutual companies, but they combine a lodge or social function with their insurance function. They write primarily in life and health insurance.
   d. Other cooperative insurers include captive insurers, risk retention groups, and purchasing groups
      i. Captive insurer – a subsidiary company formed by a business organization or a group of affiliated organizations to provide all or part of its insurance
         a) "Formalized self-insurance"
         b) May also be formed to cover losses that other insurers will not cover at any price
         c) Some states encourage the formation and operation of captive insurers, while others do not permit the formation of captive insurers
      ii. Risk retention groups and purchasing groups usually organized so that a limited group or type of insured is eligible to purchase insurance from them
         a) Can be formed as stock companies, mutual, or reciprocal exchanges
         b) Becoming more significant in the evolving insurance market place

3. Other insurers include pools and government insurers
   a. Pools – A pool consists of several insurers, not otherwise related, that join together to insure lose exposures that individual insurers are not willing to insure: losses that occur too frequently or are too severe (e.g. airplane crashes or nuclear meltdowns)
      i. Pools formed voluntarily or to meet statutory requirements
      ii. Pools operate either
         a) As syndicate – Insured has contractual relationship with pool members and can sue any or all of them directly
         b) Through reinsurance – Insured has a contractual relationship only with the member that issued the policy. Policyholder has no legal rights against the other members of the pool and may not even know that they exist
      iii. Many pools are required by law
         a) Virtually all states require some kind of pooling arrangement to provide auto

liability insurance for drivers who cannot obtain insurance in the standard market
b) Fair Access to Insurance Requirements (FAIR) plans – an insurance pool through which private insurers collectively address an unmet need for property insurance on urban properties (in more than half the states)
c) Windstorm coverage in southeastern states

b. Federal government offered insurance
i. National Flood Insurance Program (NFIP)
ii. Terrorism Risk Insurance Act
iii. All states offer some forms of government insurance (e.g. workers' compensation insurance)

E. Place of Incorporation
1. A domestic insurer is incorporated within a specific state or, if not incorporated, is formed under the laws of that state – insurance is regulated at the state level
   a. Reciprocal insurance exchanges are the only unincorporated insurers permitted in most states
   b. Insurance exchanges and Lloyd's organizations are permitted under law in only a few states
2. A foreign insurer is a domestic insurer licensed to do business in states other than its domiciled state
3. Alien insurers are incorporated or formed in another country

F. Licensing Status
1. A licensed insurer (admitted insurer) – an insurer that has been granted a license to operate in a particular state
2. An unlicensed insurer (nonadmitted insurer) – has not been granted a license to operate in a given state
3. Surplus lines broker is a person or firm that places business with insurers not licensed (nonadmitted) in the state in which the transaction occurs but that is permitted to write insurance because coverage is not available through standard market insurers
4. Producers for primary insurance (except for surplus lines brokers) are licensed to place business only with admitted insurers
5. License status is also important for reinsurance

G. Insurance Distribution Systems and Channels
1. Independent agency and brokerage marketing system – an insurance marketing system where producers (agents or brokers), who are independent contractors, sell insurance, usually as representatives of several unrelated insurers
2. Direct writer marketing system – an insurance marketing system that uses sales agents (or sales representatives) who are direct employees of the insurer
3. Exclusive agency marketing system – an insurance marketing system under which agents contract to sell insurance exclusively for one insurer (or an associated group of insurers).
4. Distribution channel –The channel used by the producer of a product or service to transfer that product or service to the ultimate customer

II. INSURANCE GOALS

A. Earn Profit
1. Profit goal is most commonly associated with proprietary, or for-profit, insurers
2. Not primary goal for cooperative insurers, but they should also earn a profit

B. Meet Customer Needs
1. Provide products and services customers seek at competitive prices
2. Prompt services

   3. Quick and professional assistance
   4. May conflict with profit goal

C. Comply with Legal Requirements – One of an insurer's greatest responsibilities is compliance with state regulations

D. Diversify Risk
   1. Emerging goal for property-casualty insurers.
   2. Meeting this goal complements the insurer's goal of earning a profit and fulfilling its duty to society

E. Fulfill Duty to Society – all corporations are obligated to promote the well being of society

III. CONSTRAINTS ON ACHIEVING INSURER GOALS

A. Internal Constraints
   1. Efficiency – Inefficiency might prevent insurers from meeting their profit and service goal, which can lead to the inability to meet societal goal
   2. Expertise – Lack of expertise could prevent an insurer from making a profit or meeting customers' needs, or it could eventually cause the insurer to fail to attain any of its goals.
   3. Size – a small insurer, that may be able to respond more quickly to an emerging trend, has more challenges than a large insurer in terms of available resources
   4. Financial resources – When financial resources become strained, insurers are unable to effectively train staff, make new capital investments, or reach new markets
   5. Other internal constraints – lack of name or brand recognition or a damaged reputation

B. External Constraints
   1. Regulation
   2. Rating agencies
   3. Public opinion
   4. Competition
   5. Economic condition
   6. Insurance marketing and distribution
   7. Other external constraints

IV. MEASURING INSURANCE PERFORMANCE

A. Meeting Profitability Goals
   1. Premiums and investment income
      a. Premium growth – not always a positive indicator of an insurer's success; should consider whether growth resulted from a competitive advantage, relaxed underwriting, inadequate insurance rates, or a combination of these factors
      b. Rate of premium growth over time – helps determine insurer profitability
   2. Underwriting performance
      a. Net underwriting gain or loss = earned premium – (incurred losses + underwriting expenses)
      b. Three ratios are used to measure an insurer's underwriting performance:
         i. Loss ratio = incurred losses / earned premium
         ii. Expense ratio = incurred underwriting expenses / written premium
         iii. Combined ratio (trade basis) = Loss ratio + Expense ratio

3. Overall operating performance –Net underwriting gain or loss plus net investment gain or loss for specific period
    a. Investment income ratio = net investment income / earned premiums
    b. Overall operating ratio = combined ratio (trade basis) – investment income ratio
    c. Return on equity = net income / owners' equity
    d. It is important to analyze the gain or loss from operations for several years.
4. Estimation of loss reserves
    a. Loss reserves are generally the largest liability in the insurer's balance sheet and can have a significant effect on the insurer's overall profitability
    b. One of the biggest problems in measuring insurer profitability arises from errors in estimating loss reserves

B. Meeting Customer Needs
1. Complaints and praise
2. Customer satisfaction data
    a. Retention ratio – the percentage of expiring insurance policies that an insurer renews; can be measured by policy count, premium volume, or both.
    b. Lapse ratio
        i. Calculated by dividing the number of policies that lapse during the period by the total number of policies written at the beginning of the period
        ii. A lapse in insurance is defined as a point in time when a policy has been canceled or terminated for failure to pay the premium, or when the policy contract is void for other reasons
3. Insurer-producer relationships – Insurers that market products through independent agents and brokers usually view this network of producers as their customers, in addition to the ultimate insurance customer
4. State insurance department statistics
5. Consumer reports

C. Meeting Legal Requirements
1. Success or failure indicated by the number of criminal, civil, and regulatory actions taken against the insurer
2. Market conduct regulation – State insurance departments monitor the treatment of insureds, applicants for insurance, and claimants, overseeing four insurer operational areas: sales and advertising, underwriting, ratemaking, and claim settlement

D. Meeting Social Responsibilities
1. No standards exist
2. Workplace safety programs
3. Support of community projects
4. Employee benefits

V. FUNCTIONAL VIEW OF INSURANCE

A. Core Functions
1. Marketing and distribution – Determining what products or services customers want and need, advertising the products, and delivering them to customers
2. Underwriting – The process of selecting insureds, pricing coverage, determining insurance policy terms and conditions, and then monitoring the underwriting decisions made
3. Claims – The purpose of claim function is to fulfill the insurer's promise to make a payment to, or on behalf of, the insured if a covered event occurs

B. Supporting Functions
   1. Risk control
   2. Premium auditing
   3. Actuarial
   4. Reinsurance
   5. Information technology

C. Other Common Function Areas
   1. Investments
   2. Accounting and finance
   3. Customer service
   4. Legal and compliance
   5. Human resources
   6. Special investigation units

SAMPLE EXAM QUESTIONS

1. Which of the following is NOT an operating goal of an insurer? (SOA GIINT February 2014)
   A. Comply with legal requirements.
   B. Concentrate risk.
   C. Meet customer needs.
   D. Earn a profit.
   E. Fulfill its duty to society.

2. What are the three core functions that exist within a typical insurer? (SOA GIINT February 2014)
   A. Accounting, actuarial, and underwriting.
   B. Actuarial, claims, and underwriting.
   C. Accounting, marketing and distribution, and sales.
   D. Claims, marketing and distribution, and underwriting.
   E. Actuarial, marketing and distribution, and sales.

3. Which of the following errors is the most significant problem in measuring insurer profitability? (SOA GIINT February 2014)
   A. Errors in setting adequate rates.
   B. Errors in estimating future investment returns.
   C. Errors in estimating loss reserves.
   D. Errors in estimating sales growth.
   E. Errors in classification of loss exposure units.

4. Which of the following is false?
   A. A foreign insurer is an insurer that is incorporated under the laws of a country outside of the United States.
   B. An insurer incorporated in state A is a domestic insurer in state A.
   C. Mutual companies include some large national/regional insurers.
   D. Nowadays a large portion of Lloyd's of London members are corporations and have only limited liabilities.
   E. Fraternal organizations resemble mutual companies, and they write primarily in life and health insurance.

5. Which of the following is a proprietary insurer?
   I. Fraternal organizations
   II. Reciprocal exchanges
   III. American Lloyds associations

   A. I
   B. II
   C. III
   D. I and II
   E. I, II, and III

6. Which of the following statements are true?
   I. Under a syndicate pool policy, the insured has a contractual relationship with each member of the pool.
   II. A reciprocal exchange is owned by its policyholders.
   III. A foreign insurer operating in a given state is an insurer incorporated in another country.

   A. I only
   B. II only
   C. III only
   D. I and II only
   E. I, II, and III

7. Which of the following is NOT an internal constraint on achieving insurer goals?
   A. Efficiency
   B. Expertise
   C. Size
   D. Financial resources
   E. Insurance marketing and distribution

8. Which of following is NOT a cooperative insurer?
   A. Captive insurer
   B. Lloyd's of London
   C. Mutual insurance company
   D. Reciprocal exchange
   E. Risk retention group

9. Unincorporated associations that enable individuals to write insurance as individuals and whose members insure one another are called:
   A. Lloyd's associations
   B. Proprietary insurers
   C. Captive insurers
   D. Reciprocal exchanges
   E. Mutual insurers

10. Which of the following statements are true?
    I. Under a syndicate pool policy, the policyholder has no legal rights against the other members of the pool and might not even know that they exist.
    II. Virtually all states require some kind of pooling arrangement to provide auto liability insurance for drivers who cannot obtain such insurance in the standard market.
    III. Cooperative insurers include captive insurers, risk retention groups, and purchasing groups.

    A. I only
    B. II only
    C. III only
    D. I and II only
    E. I, II, and III

SAMPLE EXAM QUESTION ANSWERS

1. B
2. D
3. C
4. A
5. C
6. D
7. E
8. B
9. D
10. E

ASSIGNMENT 4

PAP: PHYSICAL DAMAGE, DUTIES AFTER AN ACCIDENT, ENDORSEMENTS

I. PART D–COVERAGE FOR DAMAGE TO YOUR AUTO

A. Insuring Agreement
1. Insurer to pay direct and accidental loss to "your covered auto" or a "non-owned auto" minus deductible
2. Two categories of losses: collision losses and other than collision (OTC) losses
3. Collision coverage
   a. Upset of or impact of "your covered auto" or a "non-owned auto" with another vehicle or object
   b. Collision losses paid regardless of faults
   c. Only the highest deductible applies if two or more autos under the same policy damaged in the same collision
4. Other than collision coverage
   a. Not specifically defined in PAP
   b. Policy lists certain causes considered OTC
      i. Missiles or failing objects
      ii. Fire
      iii. Theft or larceny
      iv. Explosion or earthquake
      v. Windstorm
      vi. Hail, water, or flood
      vii. Malicious mischief or vandalism
      viii. Riot or civil commotion
      ix. Contact with a bird or animal
      x. Breakage of glass
   c. Any "direct and accidental loss" not due to collision and not specifically excluded would be covered under OTC
   d. Collision with a bird or animal is an OTC loss
   e. Glass breakage caused by collision can be collision loss or OTC loss
      i. Both deductibles could apply if insured elects to have it covered under OTC
5. Non-owned autos
   a. Part D also applies to a "non-owned auto"
   b. Occasionally borrowed/rented auto not for regular use is covered
   c. Non-owned auto has broadest coverage applicable to any covered auto shown in the Declaration
6. Deductibles
   a. Three reasons for deductibles
      i. To reduce small claims
      ii. To hold down premiums
      iii. To encourage insureds to be careful in protecting their cars
   b. Deductibles for OTC are usually lower

B. Transportation Expenses
1. Coverage applies only when the cause of loss is covered by the policy
2. Up to $20 per day, maximum $600 for each covered loss
3. Same limits apply to non-owned auto if insured is legally responsible
4. No dollar-amount deductible, but subject to a waiting period
   a. 48 hours for total theft under OTC
   b. 24 hours for loss by other perils under both collision and OTC

C. Exclusions
1. Public or livery conveyance
2. Wear and tear, freezing, breakdown, and road damage to tires
3. Radioactive contamination or war
4. Electronic equipment
5. Media and accessories
6. Government destruction or confiscation
7. Trailer, camper body, or motor home
8. Non-owned auto used without reasonable belief of being entitled
9. Radar and laser detection equipment
10. Customizing equipment
11. Non-owned auto used in garage business
12. Racing
13. Rental vehicles

D. Limit of Liability
1. The lower of actual cash value (ACV) of the damaged/stolen property or the amount necessary to repair, less any applicable deductible
2. $1,000 for electronic equipment permanently installed but not in the original location
3. $1,500 for non-owned trailer
4. Payment of loss – Insurer has the option of paying for loss in money or repairing/replacement
5. No benefit to bailee

E. Other Sources of Recovery
1. PAP insurer will pay only its share of a loss if the loss is covered by other sources of recovery
2. PAP physical damage coverage for a non-owned auto is excess over any other collectible source of recovery

F. Appraisal
1. Insurer and insured each choose an appraiser to estimate the loss. Each party pays for its own appraiser.
2. An Umpire resolves the differences. Insurer and insured share the cost of umpire.
3. An agreement by any two of the three will set the amount of loss

II. PART E–DUTIES AFTER AN ACCIDENT OR LOSS

A. General Duties
1. Provide prompt notice to insurer
2. Cooperate with insurer
3. Submit legal papers to insurer
4. Submit physical examination
5. Agree to examination under oath
6. Authorize release of medical records
7. Submit proof of loss

B. Additional Duties for Uninsured Motorist Coverage
1. Notify the police
2. Submit legal papers

C. Additional Duties for Physical Damage Coverage
1. Prevent further loss
2. Notify police
3. Permit inspection and appraisal

III. PART F–GENERAL PROVISIONS

A. Bankruptcy of Insured – Insurer is still required to pay judgment covered by policy even if insured declares bankruptcy

B. Changes in Policy
   1. Terms of policy cannot be changed/waived except by endorsements
   2. Premiums can increase/decrease due to these elements
      a. Number, type, or use of insured vehicles
      b. Operators using insured vehicles
      c. Place of principal garaging of insured vehicles
      d. Coverage provided, deductibles, or limits of liability
   3. Liberalization clause – automatically provides broadened coverage under certain conditions

C. Fraud – No coverage for fraudulent statements or fraudulent conducts

D. Legal Action against Insurer – No legal action can be brought against insurer until insured has fully complied with all policy terms

E. Insurer's Right to Recover Payment
   1. Insurer has legal right of subrogation against third party
   2. Subrogation provision does not apply to physical damage coverage
   3. If a person receives loss payment from insurer and another party, insurer needs to be reimbursed

F. Policy Period and Territory
   1. PAP applies only to accidents that occur during policy period shown on Declaration
   2. Territory includes the United States, U.S. territories and possessions, Puerto Rico, and Canada
   3. Policy territory does not include Mexico

G. Termination
   1. All states have laws that restrict insurers' right to cancel or nonrenewal
   2. State laws supersede policy provisions when different
   3. Cancellation
      a. Named insured normally can cancel policy anytime
      b. Insurer has more limited cancelation rights:
         i. Can cancel new policies with 60 days with 10 days-notice for not paying premium or 20 days-notice for any other cases
         ii. Policies effective for 60 days or renewal policies can be canceled only if
            a) Premium not paid
            b) Driver's license suspended or revoked
            c) Material misrepresentation in obtaining policy
   4. Nonrenewal
      a. Policy period < 6 months – insurer has right to non-renew every 6 months, 6 months after the original policy effective date
      b. Policy period of 6 months or longer but less than a year – insurer has right to non-renew at end of policy period
      c. Policy period of one year or longer – insurer has right to non-renew at each anniversary date
   5. Automatic termination
      a. Failure to pay renewal premium
      b. PAP coverage automatically terminates on effective date of other insurance if obtained

6. Other termination provisions
    a. Cancellation notice can be delivered (rather than mailed)
    b. Insured may be entitled to premium refund if policy is canceled
    c. Effective date of cancelation becomes the end of policy period

H. Transfer of Insured's Interest in the Policy
1. Cannot be assigned to another party without insurer's written consent
2. Coverage automatically continued to the end of policy period for surviving spouse or legal representative

I. Two or More Auto Policies
1. Insurer's maximum liability limit is the highest applicable limit under any one policy if two or more policies with the same insurer
2. No "stacking" (adding together)

IV. COMMON ENDORSEMENTS TO PERSONAL AUTO POLICY

A. Overview
1. PAP provides extensive coverage, but contains
    a. Eligibility restrictions
    b. Coverage exclusions
    c. Coverage limitations
2. Endorsements are needed for certain customers to provide coverage additions or modifications

B. Frequently Used Endorsements
1. Miscellaneous type vehicle endorsement
2. Snowmobile endorsement
3. Trailer/camper body coverage (maximum limit of liability)
4. Extended non-owned coverage – vehicles furnished or available for regular use
5. Named non-owner coverage
6. Auto loan/lease coverage
7. Limited Mexico coverage
8. Excess electronic equipment coverage
9. Coverage for damage to auto (maximum limit of liability)
10. Optional limits transportation expenses coverage
11. Towing and labor costs coverage

Sample Exam Questions

1. Which of the following is NOT a duty of an insured after an auto accident covered under the Personal Auto Policy (PAP)? (SOA GIINT February 2014)
   A. Submit proof of loss.
   B. Submit to a physical examination if requested.
   C. Agree to an examination under oath.
   D. Admit negligence to the police if at fault.
   E. Provide prompt notice to the insurer.

2. Which of the following is NOT a common endorsement added to the Personal Auto Policy (PAP)? (SOA GIINT February 2014)
   A. Snowmobile endorsement.
   B. Limited Mexico coverage endorsement.
   C. Auto loan/lease (Guaranteed Auto Protection – GAP) coverage.
   D. Towing and labor cost coverage.
   E. Garage Business endorsement.

3. Which of the following are covered under Part D–Coverage for Damage to Your Auto of unendorsed personal auto policy?
   I. Damage to tires resulting from the total theft of the auto.
   II. Damage to a rental car used by the insured on a one-week vacation in the United States.
   III. Transportation expenses when a stolen battery left the car inoperable for three days.

   A. I only
   B. II only
   C. III only
   D. I and II only
   E. I, II, and III

4. Which of the following is NOT a covered cause of loss under other-than-collision of Part D–Coverage for Damage to Your Auto of unendorsed personal auto policy?
   A. Freezing.
   B. Falling objects.
   C. Hail.
   D. Flood.
   E. Earthquake.

5. Which of the following statements regarding ISO personal auto policy are true?
   I. The definition of "your covered auto" includes a vehicle acquired in addition to those shown in the declarations with the same provisions as that of the widest coverage provided for any vehicle in the declarations.
   II. Hitting a dear is not considered collision as the term is used in Part D of the ISO personal auto policy.
   III. Transportation expenses are provided only when a total theft of the covered auto occurs.

   A. I only
   B. II only
   C. III only
   D. I and II only
   E. I, II, and III

6. Which of the following statements regarding ISO personal auto policy are true?
   I. Under Part D of the ISO personal auto policy, collision coverage for nonowned autos is excess over other collectible insurance.
   II. Part D of the ISO personal auto policy pays the insured based on the lower of actual cash value or the replacement cost of damage to the covered vehicle.
   III. There will be no coverage for damage to custom furnishings for a covered van.

   A. I only
   B. II only
   C. III only
   D. I and II only
   E. I, II, and III

7. Which of the following is NOT a valid reason for an insurer to cancel an insurance policy?
   A. An insured's driver license is revoked during the policy period.
   B. The named insured fails to pay premium due.
   C. The named insured concealed his/her traffic violation records and misstated his/her age.
   D. The named insured does not cooperate in the defense of a suit.
   E. The insured used his brother's name to obtain this policy.

8. Which of the following is NOT a general duty after an accident or loss?
   A. Provide prompt notice to the insurer.
   B. Cooperate with the insurers.
   C. Submit legal papers to the insurer.
   D. Submit proof of loss.
   E. Notify the police.

9. Bob's three cars are covered under the same PAP, which includes a $250 collision deductible on two of the cars and a $500 collision deductible on the third car. While turning into his driveway during a winter storm, Bob's car skids on the snow and collides with both of his other cars. How much deductible the insurer will apply in settling the loss?
   A. $0.
   B. $250.
   C. $500.
   D. $750.
   E. $1000.

10. The primary method of post-loss policy analysis is the DICE analysis, which is a systematic review of all the categories property-casualty policy provision. What does DICE stand for?
   A. Declarations, Insuring agreements, Conditions, and Exclusions.
   B. Documentation, Instruction, Coverage, and Exclusions.
   C. Documentation of Insurance Contract Evidence.
   D. Defined Insurance Coverage Expectations.
   E. Defined Insurance Contract Exposures.

SAMPLE EXAM QUESTION ANSWERS

1. D
2. E
3. D
4. A
5. D
6. E
7. D
8. E
9. C
10. A

ASSIGNMENT 7

COMMERCIAL GENERAL LIABILITY INSURANCE, PART II

I. CGL WHO IS AN INSURED PROVISIONS

A. Overview
1. Who is insured is essential to settling claims
2. Three categories of insured
   a. Named insured and related parties
   b. Named insured's employees and volunteer workers
   c. Other persons and organizations

B. Named Insured and Related Parties
1. Individual
   a. Spouse is also an insured
   b. Coverage applies only to claims arising from the conduct of business owned solely by named insured
2. Partnership or joint venture
   a. Named partnership or joint venture and all partners/members or their spouses are insured
   b. Coverage applies only to the business of partnership or joint venture
3. Corporation
4. Limit liability company (LLC)
   a. The named company
   b. The controlling members of the company
   c. The managers of the company
5. Trust – the named trust and trustees

C. Named Insured's Employees and Volunteer Workers
1. They are insureds except for
   a. Bodily injury or personal and advertising injury

D. Other Persons and Organizations
1. Real estate managers
2. Legal representatives
3. Newly acquired organizations

E. Unlisted Partnership, Joint Venture, or LLC – Excluded

II. CGL LIMITS OF INSURANCE

A. Limits and Sublimits
1. Each occurrence limit is the most insurer will pay for any one occurrence under Coverage A and Coverage C
2. Defense costs do not apply to each occurrence limit
3. Commonly used each occurrence limit is $1 million
4. Two sublimits subject to Coverage A each occurrence limit
   a. Damaged to premises rented to you limit
      i. Apply to any one premises
      ii. Basic amount of this limit is $100,000
   b. Medical expense limit

i. Apply for Coverage C to any one person
ii. Basic amount of limit is $5,000

5. Personal and advertising injury limit
   a. Apply for Coverage B to any one person or organization
   b. Usually the same as the policy's each occurrence limit, but can be different
6. Two aggregate limits
   a. General aggregate limit – the most insurer will pay for the sum of damage under Coverage A (except for product-completed operations), Coverage B, and Coverage C
   b. Product-completed operations aggregate limit

B. Summary
1. General aggregate limit
   a. Personal and advertising injury limit
   b. Occurrence limit
      i. Damage to premises rented to you limit
      ii. Medical expense limit
2. Product-completed operations aggregate limit
   a. Not all insureds have product-completed operations aggregate limits

III. CGL CONDITIONS

A. General
1. Obligating insured to perform certain duties in the event of loss
2. Governing insurer conduct and delineate how coverage is determined

B. Bankruptcy – Bankruptcy and insolvency of insured will not relieve insurer any of its policy obligation

C. Duties in the Event of Occurrence, Offense, Claim or Suit
1. Prompt notice insurer the occurrence
   a. How, when and where is the occurrence
   b. Addresses of injured persons and witness
   c. Nature and location of any damage
2. Actions to take when a claim or suit is brought
   a. Immediately record the details
   b. Notify insurer in writing as soon as possible
3. Additional duties when involved in a claim or suit
   a. Forward insurer copies of legal papers
   b. Authorize insurer to obtain any other legal documents
   c. Cooperate with insurer in investigation and settlement
   d. Assist insurer if requested
4. No insured may make voluntary payment, assume any obligation, or incur any expense without insurer consent

D. Legal Action Against Us
1. No person or organization can bring insurer into any suit seeking damage from an insured
2. No person or organization can bring suit to enforce CGL policy coverage part unless that part has fully complied with all policy conditions

E. Other Insurance
1. CGL is primary unless it meets the criteria that define excess insurance
2. When CGL is excess if other insurance is any of these types

a. Fire, extended coverage, builders risk, installation risk, or similar coverage on named insured's work
b. Fire insurance on premises rented to insured
c. Insurance that named insured purchases to cover its liability as a tenant
d. Aircraft, auto, or watercraft coverage
e. Any primary insurance available to named insured covering premises, operations, products, or completed operations

3. Methods of sharing if two or more policies at the same level, either primary or excess
   a. Contribution by equal shares
      i. Each insurer pays an equal amount until the claim is fully paid or until one insurer exhausts its limit, and other insurers pay the remainder
      ii. More advantageous to insurer with higher limits
   b. Contribution by limits
      i. Each insurer pays an amount proportional to its limit
      ii. More advantageous to insurer with lower limits

F. Premium Audit
1. Final premium is determined after policy expiration
2. Insured is required to keep adequate records
3. Insured must promptly pay any additional premium resulting from audits
4. Insurer is obligated to return excess premium, if any

G. Representations
1. Named insured, by accepting policy, agrees to
   a. Statements in declarations are accurate and complete
   b. Statements in declarations are based insured's representations
   c. The issued policy is in reliance on the insured's representations
2. Heavy burden on named insured

H. Separation of Insureds
1. Policy applies separately to each person insured
2. Two restrictions
   a. Limits of insurance will not increase
   b. Any rights or duties specifically assigned to the first named insured are not applicable to any other insured

I. Transfer of Rights of Recovery Against Others to Us
1. Insured must transfer the rights to insurer

J. When We Do Not Renew
1. At least 30 days-notice if not renewal
2. Law or regulation takes precedence over this policy provision

IV. RATING CGL COVERAGE

A. CGL Rating Formula and CGL Rates for Business Classifications
1. Basic formula to calculate both premises-operations premium and products-competed operations premium
2. Premium = Rate x Exposure
3. Rate is related to business classifications – class code
4. Rates will also be affected by coverage limits

B. Premium Base
   1. Mercantile businesses (i.e., retail store) are rated using gross sales
   2. Contracting businesses are rated on the basis of payroll.
   3. Building and premises risks may be rated on basis of area, gross sales, or number of units
   4. Special events (concerts, exhibitions) may be rated on number of admissions

SAMPLE EXAM QUESTIONS

Question 1 – 4 are based on the following information:

Helen owns a toy manufacturing company and she has a CGL policy with these limits: general aggregate limit: $2,000,000; products-completed operations aggregate limit: $2,000,000; each occurrence limit: $1,000,000; personal and advertising injury limit: $1,000,000; damage to premises rented to you limit: $100,000; medical expense limit: $5,000. All of the events and claims occur within the same one-year policy period.

1. Helen leases premises in a factory complex, where the toys are manufactured. A fire resulting from a cigarette tossed by her employee damaged the premises and other building, where the fire caused an explosion. The damage to the premises is $100,000 and other building is $600,000. Which of the following limit applications are true?
   I. The $100,000 damage to the premises is applied to the damage to premises rented to you limit, and that limit is exhausted.
   II. The $600,000 damage and the $100,000 damage are applied to each occurrence limit and are within that limit of $1,000,000.
   III. The sum of $700,000 applies to the general aggregate limit, leaving $1,300,000 available.

   A. I only
   B. II only
   C. III only
   D. I and II only
   E. I, II, and III

2. Helen develops a new toy oven. She leases a store in a mall, where she sells her toy. A fire starts in one of the toy stoves at the store. Three children sustain burns. Their bodily injury claims are $1,000,000. Which of the following limit applications are true?
   I. The $1,000,000 damage applies to the each occurrence limit and is within the $1,000,000 limit.
   II. The damage also applies to the general aggregate limit.
   III. There is $1,300,000 remaining of the general aggregate limit of $2,000,000. After this loss applied, $300,000 remains.

   A. I only
   B. II only
   C. III only
   D. I and II only
   E. I, II, and III

3. A second toy oven purchased by a customer catches fire and causes damage to the customer's home and injury to the child playing with the oven. The damages awarded are $600,000. Which of the following limit applications are true?
   I. The $600,000 damage applies to the products-completed operations limit.
   II. The amount of the damage is within the each occurrence limit of $1,000,000.
   III. The products-completed operations aggregate limit is reduced by $600,000 and $1,400,000 remains.

   A. I only
   B. II only
   C. III only
   D. I and II only
   E. I, II, and III

4. The manager of Helen's store detained a customer, who was shopping with her child, for suspected shoplifting. The child was injured in the process. No evidence was found to support the allegation, and the customer sued the store. The damages awarded were $250,000 for the child's injury and $100,000 for false detention. Which of the following limit applications are true?
   I. The $350,000 applies to the personal and advertising injury limit and this is within the each occurrence limit for personal and advertising injury.
   II. The damages also apply to the general aggregate limit.
   III. Only $300,000 remains of the general aggregate limit. As a result, $50,000 will be Helen's responsibility.

   A. I only
   B. II only
   C. III only
   D. I and II only
   E. I, II, and III

5. Which of the following statements regarding ISO CGL limits of insurance are true?
   I. There are two sublimits subject to the Coverage A each occurrence: Damage to premises rented to you limit and Medical expense limit.
   II. There are two aggregate limits: General aggregate limit and Product-completed operations aggregate limit.
   III. Defense costs do not apply to aggregate limits and do apply to sublimits.

   A. I only
   B. II only
   C. III only
   D. I and II only
   E. I, II, and III

6. Which of the following is NOT a type of other insurance that will make ISO CGL excess insurance?
   A. Fire, extended coverage, builder risk, installation risk, or similar coverage on the named insured's work.
   B. Fire insurance on premises rented to insured.
   C. Insurance that named insured purchases to cover its liability as a tenant.
   D. Aircraft, auto, or watercraft coverage.
   E. A newly acquired CGL policy with larger aggregate limits

SAMPLE EXAM QUESTION ANSWERS

1. E
2. E
3. E
4. E
5. D
6. E