Use these cards in addition to following the instructions on page 4 in your Manual
Definition of insurance:

A contract for transferring risk from a person, business, or organization to an insurance company that agrees, in exchange for a premium, to pay for losses (within defined limits) through an accumulation of premiums.

Insured:

A person who has transferred their risk to an insurance company through the purchase of an insurance policy (insurance contract).

Insurer:

An insurance company that is willing to assume a given risk in exchange for a premium.
Property Insurance

contract insures tangible goods such as personal items/business items. Is a two party contract – the insured (individual) and the insurer (insurance company).

Casualty (liability) Insurance

contract insures the insured legal responsibility for damage to other persons or property. Is a third party contract – insured, insurer and the damaged party (third party)

Insurance contracts are Personal

(the contracts insure the person or business, not the property).
Insurance contracts are contracts of indemnity

(make whole) (putting the customer back where they were financially before the loss, within the predetermined limit defined in the contract – contract may be between two or more parties)

Declarations

(first page of policy, name of insured, address, amount of coverage, description of property, and perils insured against)

Insuring agreement

(heart of policy, states what is covered against what, level of indemnification [how much they will pay if loss occurs])
Conditions

(ground rules, responsibilities, and obligations)

Exclusions

(what is not covered) and they can be categorized as one of the following:

- Catastrophic Losses (happens to lot of people simultaneously - for example floods, earthquakes, war, etc)
- Predictable Losses (ware and tare, deterioration, inherent vice - iron can not be insured against rust, etc.)
- Covered elsewhere (risk is excluded from a policy because the risk is covered under a different type of policy)

Endorsements

(additional risks included under the policy – for example you can add a jewelry protection endorsement to your Homeowners policy)
Definitions

(what the words used in the contract mean)

Risk:

- chance or uncertainty of loss

Exposure = Risk

Managing Risk

(Mitigating Risk of Loss – Cost Containment):

- Avoid

- Control
  - Loss prevention: Curtail loss frequency
  - Risk prevention: Limit loss severity

- Retain risk (not insured)

- Transfer risk (insured) (Insurance is a way of transferring risk)

Note: Contract exclusions, deductibles and coinsurance (coinsurance only applies if you are underinsured) are also used to reduce the costs of losses covered by insurance.
Law of large Numbers of Similar Risk (or simply the Law of Large Numbers):

the more examples used to develop any statistic, the more reliable the statistic will be.

Insurance can cover:

- Insurance can only be used to cover Pure Risk (someone may steal something).
- Insurance cannot be used to cover Speculative Risk (losses in the stock market).

All Risk

never means “all risk” (All risk policies cover anything NOT excluded in the policy).
## Elements of insurability (key risk elements)

- **Insurable interest**: You must have an insurable interest at the time of the loss! (you can insure your home or business, but not your neighbor's)
- Loss must be **definite** (time, place, etc. and difficult to falsify)
- Risk must be **unexpected** (chance or uncertainty of loss)
- Risk must be large enough to create a financial hardship
- Loss must be **calculable** (quantifiable in dollars)
- Cost of insurance must be **affordable**
- Must be a large number of persons with a similar potential loss available for insurance so that overall, losses become predictable
- Loss must not happen to a large number of insureds at the same time
- **Spread of risk** (insuring many people over large areas, not small number in a small area)

## Peril

cause of loss (car wreck, tornado, storm, etc.)

## Hazard

anything that increase chance of loss

- **Three type of hazards**:
  - **Physical hazard** *(hazard that arises from condition or occupancy of property)*
  - **Morale hazard** *(careless or irresponsible behavior)*
  - **Moral hazard** *(person might intentionally create a situation that would cause a loss)*
Accident vs Occurrence

(accident is a more restrictive term):

- **Accident**: an unforeseen or unintended event *(at a specific time and place)* that results in an injury.
- **Occurrence**: includes all accidents, but also includes events that take place over a specified period of time and are subject to limits defined in the policy. After the time period the benefits are restored (restoration or call non-reduction of limits). Occurrence limits can be subject to an overall aggregate limit *(the most the insurance company will pay during a policy period)*.

Losses

- **Direct**: *(financial loss directly related to the loss of property)*
- **Indirect**: *(consequential financial loss indirectly related to the loss of property, exp: hotel burns, the owners lost the building [direct loss] and also lost the monies [indirect loss] that would have been made from guests staying over the next few months while hotel is being rebuilt [loss of use])*.

Predetermined Limits

contractually defined and limited to your insurable interest.

Note: *Predetermined limit* is based on the Rule of 4Ls – you get the lower of the loss or the limit up to the level of your insurable interest.
Inherent Vise

a predictable loss associated with the item for example: iron can not be insured against rust.

Certificate of Insurance

(proof the policy has been written – for example when you purchase a home you may be required to provide proof [a certificate of insurance] that you have coverage in place for your new house to obtain a mortgage for same)

Elements of valid contract

- Competent parties (legal capacity - parties must be of legal age and can not be nuts)
- Legal purpose (you can not enforce a contract for the sell of illegal drugs)
- Offer and acceptance
- Consideration (monies and the statements on the application)
Estoppel

(legally preventing a person from asserting a right or privilege)

Waiver

(voluntary relinquishment of a right or privilege)

Aleatory

(equal values are not given by both parties)
<table>
<thead>
<tr>
<th>Contract adhesion</th>
<th>(the policy is written by the insurance company and offered on a take it or leave it basis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract of utmost good faith</td>
<td>(the insured depends on the insurance company to fulfill its side of the contract and the insurance company depends on the insured’s statement in the application – simply stated: the honesty of both parties)</td>
</tr>
<tr>
<td>Conditional</td>
<td>(all insurance policies list the circumstances under which a policy will be paid or not paid)</td>
</tr>
</tbody>
</table>
Unilateral Aspect of Insurance

(Only the insurance company is bound to performance by the insurance contract. The insured may choose to pay the premiums or not at anytime.)

Doctrine of Reasonable Expectations

(ambiguities in an insurance contract are normally decided in a court-of-law in favor of the insured).

Application

(= offer)
**Binders**
(oral or written statement made by an agent for immediate protection that is valid for a specific time that provides temporary coverage. A binder does not guarantee that a policy will be issued)

**Interim Insuring Agreement**
(a written binder -- normally valid for 10-30 days and serve as a binder for insurance).

**Fiduciary**
(an individual responsible for another’s financial wellbeing)
Types of insurance companies:

- **Stock** (owned by stockholders – stock bought and sold on the open stock market).
- **Mutual** (owned by policy holders – sells participating policies and pays dividends to policy holders, dividends are received tax free - dividends are considered return of excess premium)
  - **Assessment** (small number of mutual companies who provide fire and windstorm insurance for small towns and farmers)
- **Risk Retention** (also called Reciprocal) (give and take, members of group share in losses)
- **Lloyd’s associations** (example Lloyd’s of London – extreme risk – space shuttle, etc.)
- **Fraternal Benefit Societies** (usually mutual insurance companies, have a mock form of government (lodge work) associated with them)
- **Government Insurers** (sometimes private) (this type of insurance is sometimes called residual market)

**Mono-line**

Company that writes only one line of insurance

**Multi-line**

Company that writes more than one line of insurance
Lines of Insurance

- **Property** (covers any type of property risk)
- **Casualty** (covers a variety of unrelated insurance products -- examples include: aviation, auto, workers compensation, and surety bonds)
- **Life** (insures against premature death)
- **Health and Disability** (health problems and disability problems)

Individual or Business

- **Personal Lines** (for individuals or family – covers auto, home, boat camper, etc.)
- **Commercial Lines** (for businesses – office buildings, warehouses, inventory, etc.)

The Agent’s Duties

- Selling insurance
- Issuing and countersigning policies
- Collecting premiums
- Providing a link between the insured and the insurance company
- Countersigning policies (signing each policy before delivery to customer)
- Field underwriting (you are the company’s first line of defense)
- Prepare quotations
- Fill-in applications
- Suspension or Diary system (Maintain customer files)
- Service customer
- Be covered by Errors and Omission insurance (E and O insurance covers the insurance agent against their mistakes while writing insurance policies)
<table>
<thead>
<tr>
<th>An agent must</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Represent the insurance company’s best interest</td>
</tr>
<tr>
<td>- Obey all legal instructions from insured</td>
</tr>
<tr>
<td>- Deposit customer funds in separate account</td>
</tr>
<tr>
<td>- Use prudent care concerning all duties</td>
</tr>
<tr>
<td>- Keep insurance company informed of all facts related to the agency relationship</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Agent Authority</th>
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<tbody>
<tr>
<td>(Producer Authority) (Law of Agency - Agent [producer] is authorized to act on behalf of a Principal [insurance company]):</td>
</tr>
<tr>
<td>Powers of a producer are:</td>
</tr>
<tr>
<td>- <strong>Expressed</strong> (authority specifically given to an agent in writing [contract])</td>
</tr>
<tr>
<td>- <strong>Implied</strong> (authority not formally given to an agent [the customer thinks you have all the answers])</td>
</tr>
<tr>
<td>- <strong>Apparent</strong> (authority that a reasonable person assumes the agent has [not a lawyer or CPA])</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Insurance Marketing Systems</th>
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<tbody>
<tr>
<td>- <strong>Exclusive agency system</strong> <em>(or captive agency system – sell for only one company)</em></td>
</tr>
<tr>
<td>- <strong>Direct writer system</strong> <em>(agents are employees of insurance company)</em></td>
</tr>
<tr>
<td>- <strong>Direct response system</strong> <em>(have no agents – sold only through mail or over phone)</em></td>
</tr>
<tr>
<td>- <strong>Independent agency system</strong> <em>(independent, sell for many companies, not just one company, can bind coverage)</em></td>
</tr>
</tbody>
</table>
Insurance Professionals

- Brokers (work for the best interest of the insured, not the insurance company, also independent, can not bind coverage)
- Solicitor (can sell insurance, collect premiums, however can not counter sign policies or issue policies)
- Excess or surplus lines (have specialized insurance coverages not available from other sources – used to off-load excess risk from one insurance company to another)
- Producer (any person that is authorized to sell insurance products: an agent, broker, or solicitor)
- Consultant (offers insurance products for a fee, not a commission)

Insurance Company Functions (part 1)

- Underwriting department (approve, rate or reject risks)
- Policy issue and administration (the worker bees with the insurance company):
  - Policy analyst or screener
  - Assembly and filling areas
- Claims Department:
  - Claims adjusters or representatives
  - Independent adjusters
- Actuarial and statistical department (the numbers department, includes actuaries that determine policies rates)
- Accounting department
- Investment department

Insurance Company Functions (part 2)

- Legal department
- Audit department
- Loss control department
- Agency department
- Marketing department
- Reinsurance department
- Support department:
  - Personnel
  - Training
  - Information systems
  - Administration, forms and filing
  - Building and maintenance
State Insurance Operations

- Each state has an insurance department with officials to enforce state rules
  - Directors
  - Superintends or commissionaires
- Areas of responsibilities:
  - Companies
  - Agents
  - Ratification
  - Enforcement (apply the rules and regulations of the state)
- Insurance Companies can be either:
  - Admitted (Authorized)
  - Non-admitted (Unauthorized)
- Insurance guaranty associations
- Approval or Ratification
- Rates (in some states rates are mandatory)

The Location of the Insurance Company Headquarters Affects How it is Regarded in a Given State

- Domestic (if insurance company is domiciled in the same state where you are selling insurance)
- Foreign (if insurance company is domiciled in another state other than where you are selling insurance)
- Alien (if insurance company is domiciled in another country other than where you are selling insurance)

Insurance Rating Companies

- A. M. Best
- Standard & Poor
- Finch
- Moody’s

(rates companies from A++ down to F)
Legal requirements for agents

- Must be licensed by the state.
- Fiduciary (responsible with the customer’s monies)
- Misrepresentation (enjoined from misrepresenting insurance products)
- Twisting (it is illegal to replace a policy with one of lesser quality)
- Rebating (it is illegal to split a commission with a customer)
- Unfair discrimination (agents can not give higher or lower rates for any reason for policies that have identical coverages – also agents can not accept bribes to provide lower premiums to selected customers)

Service Bureaus

(compile statistics, rates, financial records, operational and loss records):
- Insurance Service Office (ISO)
- The National Council on Compensation Insurance (NCCI)
- Surety Association of America (rates surety bonds)
- There are numerous other rating bureaus.

Underwriting

- Information used during the underwriting process comes from three primary sources:
  - Statement on the application
  - Physical Inspection
  - Consumer Credit reports
- Government bureaus (such as Bureau of Motor Vehicles)
- Insurance industry bureaus (such as the Automated Property Loss Underwriting System)
- Financial information services (such as Standard and Poor’s)
- Previous insurers
- The company’s own claim files
- Fair Credit Reporting Act (credit standing, personal character, reputation, habits, and lifestyle)

- Underwriting Measurement:
  - Loss ratio
  - Expense ratio
  - Underwriting profit

- Adverse Selection (underwriters do not want to insure people/property that have an extremely high risk, they want to avoid adverse selection)
Rating Methods used for Premium Calculation

- **Judgment Rating** (oldest way – involves pure judgment based on experience) involves the following three rating methods components:
  - Schedule rating (list of common ratings which can be adjusted up or down based on individual customer requirements)
  - Experience rating (add or subtracts from manual rating [class rating] based on actual loss experience)
  - Retrospective rating (allows for adjustments from manual rating [class rating] based on experience within a given year)

- **Manual Rating** (or class rating – based on manuals – Rate per unit X number of units = premium)

- **Merit Rating** (includes both judgment and manual rating methods)

- **Individual Rating** (necessary when risk is too uncommon to generate numbers required for a class rating)

Policy and Rate Filings

Most state require that policy and rates be filed with the department of insurance in a given state to ensure conformance with state laws and to ensure that rates are adequate to meet solvency requirements while not being excessive or discriminatory in nature.

Insurance Application Facts

- **Statements on the Application** May be either:
  - Representations (statements which are correct to the "best of the customer’s knowledge") – or -
  - Warranties (warrants of truth)

- **Misrepresentation** (a representation that turns out not to be true)

- **Material fact** (information which the insurance company will use to base the policy on)

- **Concealment** (not disclosing a material fact that could effect the issuing of a policy)

- **Fraud** (intentional incorrect statement of material fact):
  - Someone deliberately lies
  - The intent of the lie is for someone else to rely on that lie
  - Another person relies on that lie
  - The other person suffers harm as a result of relying on that lie
Property coverage

- **Specific Insurance**: Description of property at a specific location may also be included.
- **Blanket Insurance**: Description of property covered at any location may also be included.

Policy Period

- (effective dates of policy, start and stop)

Policy Territory

- (the location of the property to be covered by policy, typically included the United States, Puerto Rico and Canada)
Policy Limit

- Limit of coverage
- Limit of insurance
- Limit of liability
- How limit is defined:
  - Split (may have separate limits for BI [bodily injury] and PD [property damage])
  - Single (or Combined) (may have a single limit combined for BI and PD)
  - Per Occurrence (accident that occurs at specific time and place)
  - Per Accident (more restrictive than per occurrence, means essentially the same thing)
  - Per Person (the most that will be paid per person injured, per accident)
  - Aggregate Limit (the most that will be paid for all losses, per accident)

Agreed amount contract or valued

(agree upon values written into the contract)

Deductibles

(amount of lost that the insured must pay out-of-pocket before insurance company will cover the rest of the lost)
### Insuring Agreements

(defines what losses are actually covered):

- **Policy Coverages:**
  - Policy coverages (what is covered in detail)
  - Additional coverages (or extended coverages or coverage extensions, or other coverages – may have separate limits)

- **Perils Insured against:**
  - Named peril (or Specific peril)
  - Open peril (sometimes called all risk or special coverage)

- **Injuries/Damages:**
  - Bodily Injury (BI) (injury, sickness, disease and death arising out of injury, sickness or disease)
  - Property Damages (PD) (destruction of property including the loss of use of same)
  - Personal Injury (PI) (slander, libel, false arrest, and invasion of privacy)

- **Defense Costs** (covers defense costs related to defending an insured against claims for BI, PD, and PI)

### Prejudgment Interest

(at the time of judgment provides retro active damage compensation as if judgment was made at time of accident – pays the difference, if any. Exp: An accident in 1999 was not settled until 2004, the value of the new 1999 car damaged is now less than in 1999 when the accident actually occurred – prejudgment interest would cover this difference).

### Supplementary Payments

- Defense cost
- Claim investigation expenses
- Bond premiums (exp. Bail bonds, appeal bonds, release of attachment bonds)
- First aid to others at time of accident
- Expenses for investigation or defense of claim (if requested by insurance company)
- Lost earnings
- Prejudgment interest (not included as part of damages)
- Postjudgment interest (interest accruing on the judgment after an award, but prior to payment by the insurance company)
Duties following loss

- Notice of claim (must promptly notify the insurance company and law enforcement [if law was broken])
- Inventory damages
- Protect the property from further damage
- Proof of loss (must be detailed official list of damages, if company requests same)
- Make property available for inspection and submit to examination under oath
- Assist during claim investigation (if required)

Valuation

- Insurable interest
- Policy value
- Actual cash value (ACV) (replacement cost – depreciation)
- Replacement cost (used to replace lost old item with new)
- Cost to repair (functional replacement cost)
- Agreed value (used for fine antiques and art – must provide proof at time of loss)

Note: Fair Market Value (a standard in other industries) is almost never used in insurance.

Liberalization Condition

(provides for broader coverages for a specified policy and related policies without increasing premiums)
Assignment Condition

(specifies that written consent is required to transfer policy rights to anyone else, except in the case of death)

No Benefit Bailee Condition

(bailee is a person or organization that has temporary possession of personal property of another – Bailee Condition states that the bailee must be independently insured against any losses and is not covered by any policy owned by the personal property owner)

Mortgage Condition

(or loss payable condition specifies the rights and duties of the mortgagee under the policy)
Contribution by equal shares

(when property is covered by more than one insurance policy the insurance companies share equally in the loss)

Exclusions

- Named Peril Policy
- Open Peril Policy
- Five broad categories (commonly in all property policies):
  - Nonaccidental losses
  - Losses controllable by the insured
  - Extra-hazardous perils (unique peril where additional coverage is required, of course at a higher premium)
  - Catastrophic losses
  - Property covered in other policies
  - Limitations

Other exclusions include

- Damage to property owned by the insured
- Damage to property in the insured’s Care, Custody or Control (Fire Legal Liability is used to cover rental property or an Umbrella or Excess Liability policy can be used to cover this liability exclusion)
- Bodily injury to an insured
- Losses covered by other policies (such as Workers Compensation laws and Nuclear Energy Liability policies)
- Injuries or damages caused intentionally by the insured
- Concurrent Causation (refers to when two or more perils are concurrent in the loss)
Vacancy (absent of people and property on premises) and Unoccupied (absent of people)

Definitions (terms used in policy defined)

Actual Cash Value (ACV) (ACV = Replacement Costs – Depreciation) (common method of determining value of loss)
Repair cost

(when loss is less than ACV)

Replacement Cost

(insurance pays the current cost for item replacement that was lost or destroyed)

Functional replacement cost basis

(insurance pays the amount to purchase an equivalent item of equivalent condition prior to lost -- used cars get used parts replaced under this method)
Market Value

- Current market value of property (for example, house prices may go up or down depending on the surrounding property usage.)

Lost Payment

- Must be within a reasonable time (some policies state a specific time frame)
- Company may:
  - Pay full amount for the loss and salvage the damaged property
  - Pay to repair or replace property
  - Repair/replace with equivalent property

Coinsurance

- 80% Coinsurance Condition (means the property must be covered by at least 80% of its value. If not insured for at least 80%, partial loss payouts may be reduced proportionally)
- Agreed Value or Stated amount (defines the value of specified items. If loss is within policy limits the policy pays full amount -- used to avoid coinsurance penalty)

Penalty

- If the property is not insured for at least 80% of its value, partial loss payouts may be reduced proportionally
- This is called coinsurance penalty
<table>
<thead>
<tr>
<th>Pair or set</th>
<th></th>
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<tbody>
<tr>
<td>(states that in the case of a loss to an item that is part of a pair or set, the insurance company is not obligated to pay the value of the entire set. The company may either repair or replace part of the set or pay the difference between the actual cash value of the property before and after the loss.)</td>
<td></td>
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<thead>
<tr>
<th>Salvage and Abandonment Compared</th>
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<tbody>
<tr>
<td>o <strong>Salvage</strong> (insurance company may take possession of damaged goods after payment of claim, salvaged goods are used to reduce the costs to the insurance company for the payment of claim)</td>
<td></td>
</tr>
<tr>
<td>o <strong>Abandonment</strong> (the insured is not allowed to abandon their damaged property to the insurance company and then demand payment)</td>
<td></td>
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<tr>
<th>Subrogation</th>
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<tbody>
<tr>
<td>(the transfer of the insured’s right of recovery against others to the insurance company) <strong>May also be called Transfer of Right of Recovery Against Others to Us</strong></td>
<td></td>
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Appraisal Condition

(either party may demand an appraisal on the item in question – if both parties choose a separate appraiser the appraisers choose an umpire to settle any differences in the appraisals results – insured pays for his own appraiser fees and half of the fees for the umpire)

Arbitration Condition

(similar to appraisal condition, however it is not limited to disputes of the value of the loss, such as disputes arising from liability insurance claims between two insurance companies)

Recovered Property condition

(states that if the insured or insurer recovers property on which the insurer has made loss payment, the other party must be notified. The insured may have the property returned, in which case the loss payment will be adjusted, or allow the company to have it.)
Other insurance

<table>
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<tr>
<th>Other Sources of Recovery or Insurance Under Two or More Coverages</th>
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<tbody>
<tr>
<td>○ Primary Insurance (the company responsible for the majority of the loss)</td>
</tr>
<tr>
<td>○ Excess Insurance (the secondary company or companies that pay for the excess of the loss that the primary insurance company did not pay)</td>
</tr>
<tr>
<td>○ Pro Rata Method (most common method of resolution when other insurance companies are involved in a given claim)</td>
</tr>
</tbody>
</table>

Reporting Forms

| ○ Non reporting forms (charge a flat premium. For example: auto and home insurance) |
| ○ Reporting forms (charge a deposit premium or estimated premium and periodically the insured submits an updated report to the insurer concerning the status of factors on which the premium is based, information is used to determine current/future cost of insurance – when the deposit is used up the insured then pays premium calculated at the end of each reporting period. Insurer may require a premium audit to making any final adjustment prior to determining a final premium.) |

Cancellation and Non Renewal

| Occurs during policy period or term (the date the policy starts and ends) |
| Must be by letter |
| Return of unused premiums (may be returned on short rate basis which includes the cost of issuing the policy) |
| Pro rata basis (in this case the company can only keep used premium) |
| Flat cancellation (occurs when the policy is cancelled by either the insured or the insurer on the policy anniversary date) |
Liability Insurance

(protect an insured from financial losses arising out of liability claims by transferring the risk to insurance company. Only covers liability you are legally obligated to pay – NOT morally or ethically obligated to pay, but legally obligated to pay through a settlement or judgment).

Note: Settlements and judgments are also referred to as Coverage Triggers.

Liability losses

(also known as third party losses. Losses that occur from actions toward other people or their property.)

Tort

(civil wrong that violates the rights of another: intention or unintentional)
### Negligence

(lack of reasonable care that is required to protect others from the unreasonable chance of harm.)

**Four factors required to establish negligence:**
- Legal duty owed
- Breach of legal duty owed
- Proximate cause
- Damages (without damages there can be no finding of negligence)

### Defenses against Negligence

- **Contributory** (in some states if a person contributes to their own damages in any way, another party cannot be held liable)
- **Comparative** (in other states if both parties contribute to a loss, awards are based on the extent to which each party was negligent)
- **Assumption of Risk** (in some states if a person knowingly exposes themselves to danger or injury they may not be able collect damages. Exp: spectators injured at racing events)
- **Intervening Cause** (an event that changes the sequence of events leading to a loss – intervening cause becomes the proximate cause of the loss)
- **Statutes of Limitations** (if lawsuits are not filed within a time specified under law, the lawsuit will not be legally valid)

### Vicarious Liability

(or imputed liability) liability arrived at because of the actions of an individual under the control of another. For exp: employer being held responsible for an accident one of their employees had while on company time
Strict Liability

used to settle product liability cases – unlike negligence duty is not a factor

Absolute Liability

imposed by law on individuals involved in certain activities involving:
- Dangerous materials
- Hazardous operations
- Dangerous animals

The Parties Involved in the Loss

- **First Party** (*the insured*)
- **Second Party** (*insurance company representing the insured*)
- **Third Party** (*the person suffering the injury*)
Third Party Losses

(again: liability losses are known as Third Party Losses)

Damages

(monetary compensation)

- **Compensatory Damages**
  (reimbursement for actual losses):
  - **Special** (includes all direct and specific expenses; exp. Medical, funeral, lost wages, etc).
  - **General** (or Noneconomic) (pain, suffering, and disfigurement; exp. Court sometimes awards damages that are punitive or exemplary for wantonly or willfully committed)

Dwelling Insurance

(protects individuals from financial loss resulting from loss of their dwelling and personal property)

- **Home owners policies**
  (provides both property and liability coverages – normally sold to homeowners; **unendorsed Dwelling policies provide property coverage only**)
- **Dwelling policies** (provides more limited Property coverages than Home owners policies – normally sold to landlords)
Dwelling policies may include small businesses

- may include **incidental** business and professional occupancy – must involve service as opposed to sales and involve no more than two people working on premises at any one time. Exp. includes beauty parlor, photography studios and professional offices.

**Dwelling 89 policy**

**Basic form** (also known as DP-1 or DP 00 01):
- Coverage A – Dwelling
- Coverage B – Other Structures
- Coverage C – Personal Property
- Coverage D

**Dwelling 89 policy**

**Broad form** (also known as DP-2, DP 00 02) (is a named peril policy similar to the Basic Form that lists the perils that dwellings, other structures and personal property are insured against. The Broad form automatically covers all of the standard and optional perils available on the Basic form—fire, lightning, the extended coverage perils, and vandalism and malicious mischief.) Basic Policy coverages included:
- Coverage A – Dwelling
- Coverage B – Other structures
- Coverage C – Personal Property
- Coverage D – Fair Market Value
- Coverage E – Additional Living Expenses (unique with DP-2 and DP-3)
Dwelling 89 policy
Special form

(also called all risk) (DP-3, DP 00 03) (provides open peril coverage on the dwelling and other structures, insuring against all risks of direct physical loss that are not specifically excluded in the policy. Personal property is covered on a named peril basis—the same perils listed in the DP-2.)

Dwelling 89 policy
Tenant’s form

(DP-4, DP 00 04) (provides similar coverage to H0-4)

Homeowners Policies (multi-line or package policies – provides both Property and Liability coverage)

- Section I (property insurance):
  - Coverage A – Dwelling (same as DP-1)
  - Coverage B – Other structures (same as DP-1)
  - Coverage C – Personal Property
  - Coverage D – Loss of use
- Section II (Direct and indirect liability and medical coverage – same coverage for all homeowner forms):
  - Coverage E – Personal Liability
  - Coverage F – Medical Payments to Others
HO-2, HO-3, HO-4, HO-5, HO-6, and HO-8
(Part 1)

- The HO-2 (HO 00 02) is the Broad form and provides broad coverage for the dwelling and personal property. The covered perils are similar to those provided by the DP-1 with the Extended Coverage perils and V&MM coverage. Breakage of glass and theft are also covered. In addition, it broadens certain perils and adds other perils.
- The HO-3 (HO 00 03) is the Special form and provides open peril coverage for loss to the dwelling and other structures, unless specifically excluded in the policy. It provides broad named peril coverage for personal property, which is identical to the HO-2's coverage of personal property.
- The HO-4 (HO 00 04) is the Tenants form and insures tenants personal property—broad coverage similar to HO-2 with no coverage for the dwelling.

HO-2, HO-3, HO-4, HO-5, HO-6, and HO-8
(Part 2)

- The HO-5 (HO 00 05) (Covers both dwelling and property on open peril basis for both Dwelling and Personal Property—covers anything not specifically excluded in the policy)
- The HO-6 (HO 00 06) (is the Condominium form, provides broad coverage similar to HO-2 on the personal property of condominium owners with very limited dwelling coverage.)
- The HO-8 (HO 00 08) (is the Modified Coverage form, is designed for older homes with replacement values that may far exceed their market values. It provides basic coverage on the dwelling and personal property that is similar to the DP-1 with the Extended Coverage perils and V&MM coverage, but also includes certain restrictions on valuation of losses. In many areas, the HO-8 is no longer available. Only insures against basic perils.)

Personal Auto Insurance (PAP)

(Personal Auto Policy) (policy consists of Declarations Page and Policy Form)
General Types of Coverage:
- Liability
- Damages to motor vehicle
- Policy Forms
  - Part A (Liability Coverages—may be written alone or with other coverages).
  - Part B (Medical Payments Coverages—is optional but requires Part A coverage).
  - Part C (Uninsured Motorists Coverages—is optional but requires Part A coverage and is subject to varying individual state laws).
  - Part D (Collision and Other Than Collision [physical damage]).
  - Part E -- Duties After an Accident or Loss (similar to other Property and Liability policies.)
  - Part F – General Provisions (describes obligations of insured and insurer as well as establishes conditions for coverage.)
Personal Auto Policy Endorsements

- **Joint Ownership Coverage** (covers two or more persons [other than husband and wife] who live in same household).
- **Towing and Labor Costs** (basic limit of $25.00 for towing and labor directly related to towing – higher limits are available).
- **Miscellaneous Type Vehicle** (covers motorcycles, mopeds, and recreational vehicles [golf carts and motor homes]).
- **Extended Non-owned Coverage for Named Individuals** (expands coverage of the Personal Auto policy concerning the driving of other individuals’ vehicles).
- **Optional Limits Transportation Expense Coverage** (allows insured to select daily and maximum limits of coverage for transportation and loss of use expenses for both scheduled and non-owned vehicles).
- **Named Non-owned Coverage** (covers rented or non-owned vehicles driven by the insured for up to 14 days).

No-Fault Insurance

(under these laws the insured is reimbursed by their own insurance company for medical expenses and/or loss of wages related to an accident regardless of who caused the accident).

Assigned Risk Plans or Automobile Insurance Plans

(voluntary agreements between insurance companies licensed in a given state. These companies agree to share the poor risks among themselves. Each company accepts its share of assigned risk drivers according to the size of the individual insurance company).
Flood Insurance

The National Flood Insurance Program [NFIP] was created by congress in 1968 to make Flood insurance available to eligible communities through federal subsidization. You do not have to be in a flood plain to be insured. This program is operated under the Federal Emergency Management Agency [FEMA] and is managed by the FEMA branch: the Federal Insurance Administration [FIA]:

Earthquake Insurance

(sold as an endorsement to either a Dwelling or Homeowners policy and covers structure and contents).

Mobile Home Insurance

- Dwelling policy (Basic form) is used to cover property damage for mobile homes which are permanently mounted to a foundation only.
- HO-4 forms can be used to cover contents of a mobile home, but not the mobile home itself.
- Alternate Insurance Methods:
  - Mobile Home Package Policy (developed by companies and rating organizations).
  - Mobile Home Endorsement (ISO has developed an endorsement for HO-2 and HO-3 to provide coverage for mobile homes).
Personal Articles Form

open peril coverage on blanket basis *(includes pair or set condition already previously addressed)* with following exclusions:

- Insects
- War
- Nuclear hazard
- Vermin
- Wear and tear
- Gradual deterioration
- Inherent vice *(as built defect in property)*

Personal Property Form

*(coverage for 9 optional classes with automatic coverage newly acquired items identified by [A] if category is already insured: jewelry[A], furs, cameras[A], musical instruments[A], silverware, golf equipment, fine arts[A], stamps, and coins).*

Personal Effect Form

*(open peril coverage designed to cover personal belongings while traveling, on insured’s premises or while in storage) exclusions include the following: valuable papers, tickets, contact lenses, artificial limbs, and sales samples.*
Personal Inland Marine Insurance

- Personal Watercraft Insurance (limited coverage of $1,000 and for some perils there is no coverage at all under Homeowners policy).
  - **Boat Owners, Outboard Motor and Boat Policies** (covers Property, Liability and Medical payments on open peril basis for open boats under 25 ft in length or under a maximum dollar value – losses paid on an actual cash value basis).
  - **Outboard Motor and Boat Insurance** (open peril - covers physical damage to boats, motors, accessories and trailers with limited coverage for damage to another vessel. Losses paid based on actual cash value basis).

Personal Yacht Policies

- **Ocean Marine forms** that provide a package of Property and Liability coverages on open peril basis – used for most inboard boats, sailboats with inboard auxiliary power and large sailboats Coverage included are:
  - Hull Insurance
  - Boat Trailer Insurance
  - Protection and Indemnity
  - Medical Payments
  - Federal Longshore and Harbor Workers Compensation Insurance
  - Conditions/Exclusions: water skiing clause (does not cover water skiers while in water off the boat), Layup warranty provides for reduced premium for boats while in safe storage, navigational limits (defines area where yacht is permitted to operate – exceptions must be granted by insurer).

Fair Access to Insurance Requirements Plans

- **(FAIR Plans)** (state developed insurance plans used to insure inner city property at reasonable rates).
Personal Umbrella Insurance

- Extended Liability coverage ranging from $1 to $5 million – requires an underlying basic Liability policy coverage.
  - Provides additional Liability insurance over and above the basic coverage provided by other policies.
  - Covers some losses that are specifically excluded by the underlying Liability insurance.
  - Exclusions (intentional acts, liability covered under Workers Compensation and liability arising out of business pursuits).

Commercial Package Policy (CPP)

CPP (used to provide almost any commercial insurance the insured might need – all risk)

- Certain responsibilities and obligations are assigned to the First Named Insured.
- Cancellation (requires a 30 day notice and any unused premium will be returned on a pro rata basis).
- Examination of Books and Records (insurance company may examine and audit the insured’s books and records at any time and for up to 3 years after the business closes).
- Nonrenewal (if the insurer chooses to non-renew, most states will require prior notice, this requirement varies from state to state).
- Cancellation (The first named insured can cancel without notice).
- Inspection and Surveys (gives the insurance company the right to make inspections or surveys of the insured’s business at any time).
- Transfer of Your Rights and Duties Under This Policy (sometimes called Assignment Clause).
Commercial Package Policy - Two or More Coverage Parts

- Covered Parts (each line has its own variety of mandatory and optional forms used to provide desired coverage. If only one part is required in a given policy, that policy would be a mono-line policy)
- Eligible Commercial Coverages includes: Property, General Liability, Auto, Crime, Inland Marine, Boiler and Machinery, Professional Liability, Employment Practices Liability, and Farm. (also referred as the Magnificent Seven)

Businessowners Policy (BOP)
(provides Property and Liability coverages for certain low risk small businesses -- eligibility requirements are more stringent than those for CPP – package policy consisting of both CPP and BOP – open peril [if not excluded, it is covered] policy – standard deductible is $500, can be raised to $2,500 – no coinsurance requirement, pays losses settlements on replacement cost basis unless underinsured [insured for less than 80% of replacement cost]; then ACV basis).

Restaurants
(certain fast food and limited-cooking restaurants are also eligible for the business policy).
- Limited-cooking restaurant (restaurant where food is prepared cold or cooked using appliances that do not emit smoke or grease-laden vapors that require an exhaust system.)
- Fast food restaurant (restaurant may use certain appliances that emit grease-laden vapors, such as grills, enclosed broilers and deep fat fryers, but open broiling and solid fuel [charcoal or hardwood] cooking are not permitted.)
ISO's Businessowners Policy

- Standard Forms (named perils):
  - Fire
  - Smoke (except smoke from an industrial or agricultural smudging operation)
  - Sprinkler leakage
  - Sinkhole collapse
  - Lightning
  - Explosion
  - Windstorm or hail
  - Aircraft or vehicles
  - Riot or civil commotion
  - Vandalism and malicious mischief
  - Volcanic action
  - Transportation damage to property in transit

- Special Property Form provides open peril coverage (covers all losses that are NOT specifically excluded).

Commercial Property Insurance

- Property Insurance (insurance on real property – real property is defined as dirt and the stuff attached to it… for example: office buildings, factories, and warehouses).
- Business Personal Property (insurance on stuff – stuff is defined as property that owned by a business… for example: furniture, fixtures, machinery, and inventory).

Builders Risk Coverage Form

- (covers commercial, residential or farm buildings that are under construction -- Coverage includes both the building under construction and its foundation. Fixtures, machinery, equipment used to service the building, and the insured’s building materials and supplies can be covered if they will become a permanent part of the building and are located within 100 feet of the building. In addition, coverage may be extended to cover building materials and supplies owned by others but in the insured’s care, custody or control, provided they are located within 100 feet of the described building. The most that will be paid under this extension is $5,000.)
### Business Income

(For loss of business income to be covered, the suspension of operations must result from direct physical loss to property at the described premises caused by a peril insured against in the Causes Of Loss form.) Includes: net income that would have been earned if the loss had not occurred, and; the costs of continuing normal operations, including payroll. The two Business Income forms are:

- Business Income With Extra Expense
- Business Income Without Extra Expense

### Causes of Loss form (perils)

(There are four Causes Of Loss forms: Basic, Broad, Special, and Earthquake.)

### Ocean and Inland Marine Insurance

(Marine insurance is a type of Property insurance that protects property on land or sea.)
Ocean Marine

(covers cargo and ships in transit over sea. It is one of the oldest types of insurance and one of the first to provide open peril coverage for the insured’s property. This type does not have standardized forms.)

A few of the more important characteristics of Ocean Marine insurance is it can be issued on a Named Peril or Open Peril basis.

Inland Marine

(first developed as an extension of Ocean Marine insurance to provide coverage for cargo that travels over land instead of by sea. Domestic shipments are covered through Inland Marine Transportation forms.)

Nationwide Marine Risk Definition.

The Definition lists six categories of eligible Marine risks:
- Imports (covered by Ocean Marine)
- Exports (covered by Ocean Marine)
- Domestic shipments (covered by Inland Marine)
- Instrumentalities of transportation or communication (covered by Inland Marine) (includes forms that cover property related to transportation or communication, such as bridges, pipelines and television towers.)
- Personal property floater risks (covered by Personal Inland Marine insurance.)
- Commercial property floater risks (covered by Inland Marine) has a number of subcategories of Inland Marine forms
Commercial General Liability Coverage

(policy may be included in the CPP or issued as a stand-alone policy. The coverage provided by the Liability section of the Businessowners policy is similar to that provided by the CGL - covers business liability exposures. Business liability is liability that arises out of the conduct of a business)

Commercial Auto Coverage

(Businesses, like individuals, need both Liability and Physical Damage coverage for losses that arise out of autos owned by or used in the business. In this unit, we will focus on automobile coverages designed to cover the private passenger and commercial auto exposures of businesses [vehicles that are owned, leased, rented, hired or borrowed] that can be insured under the Commercial Auto policy – It does not cover vehicles that are not designed to be used on public roads [such as forklifts, graders, backhoes, bulldozers, etc.])

Crime Insurance

(designed to protect businesses and government entities against property loss resulting from crimes such as burglary, robbery, theft, and employee dishonesty.)

- Commercial Crime Insurance (available as either a mono line policy or package policy.)
- Government Crime Insurance (available as either a mono line policy or package policy.)
Parties to a Bond

Insurance contracts include two parties—the insured and the insurance company while Bonds are contracts between three parties:

- **Principal** (The party who promises to do [or not do] a specific thing. This is the person or company bonded.)
- **Surety** (The party [often the insurance company] who agrees to be responsible for loss that may result if the principal does not keep his or her promise.)
- **Obligee** (Party to whom the principal makes the promise, and for whose protection the bond is being written.)

Workers Compensation

(Workers Compensation laws [provides a fair means of handling work-related injuries, including occupational diseases.] gives employees the right to collect from their employers for injury, disability or death that occurs in the course of employment regardless of who is at fault [occupational related health or disorder]. Exclusive Remedy: Employees cannot sue their employers in court to obtain additional compensation.)

Boiler and Machinery

(Equipment Breakdown coverage) (loss prevention insurance -- Boiler And Machinery insurance can be written as part of a Commercial Package policy or as a stand-alone policy.)
Farmers (Ranch) Insurance

(Farmers’ businesses and homes are often at the same location, so they need insurance that will cover both their personal and business exposures to loss. The Farm coverage part, which can be written as a mono-line policy or included in the CPP, includes several Farm Property coverage forms that cover both the personal and business property of the farmer and a Farm Liability coverage form for the personal and business liability exposures of the farmer. Covers both scheduled and unscheduled personal property.)

Aviation Insurance

(Insurance coverages for aircraft are similar to those available for automobile exposures. The most significant differences between aircraft and automobile insurance are the higher dollar exposure to loss and the high degree of care required by the operator of the aircraft.)

Fidelity Bonds

(A bond is a guarantee that a specific duty will be discharged, a certain performance maintained or a specific obligation fulfilled. Fidelity bonds guarantee an employee’s honest discharge of duty and are written to protect an insured from dishonest acts by employees. The Employee Dishonesty coverage we discussed earlier provides coverage comparable to that provided by Fidelity bonds. Fidelity bonds are continuous and do not have expiration dates, although they may be terminated by the parties to the bond. Like Commercial Crime forms, Fidelity bonds provide a discovery or cut-off period for losses that occurred during the term of the bond, but were not discovered until after its termination.)
Surety bonds

(major differences between Fidelity and Surety bonding lies in the face that, in Fidelity bonding, it is the obligee (the employer) who seeks and pays for the bond. The principal (the employee) often does not even know the bond exists. With Surety bonds, on the other hand, the principal is always the party that both arranges and pays for the bond for the benefit of the obligee.)

Contract Bonds

(guarantee the fulfillment of contractual obligations.) Common types of Contract bonds are:

- **Bid bonds** (Guarantee that if a contractor’s bid is accepted, the contractor will enter into a contract and provide the required Performance bond.)
- **Performance bonds** (Guarantee that jobs will be completed by the contractor according to contract specifications.)
- **Payment bonds** (Guarantee that bills for labor and materials will be paid by the contractor as they are due. These are sometimes called Labor And Materials bonds, and are frequently included as part of a Performance bond.)
- **Supply bonds** (Guarantee that a supplier will furnish supplies, products or equipment at an agreed-upon price and time.)
- **Completion bonds** (Guarantee that when contractors borrow money to fund construction projects, the project will be carried out and the work will be delivered free and clear of liens or encumbrances.)

Judicial Bonds

- **Fiduciary bonds** (commonly used to bond guardians, administrators, trustees, and executors, all of whom are fiduciaries, or persons appointed by a court of law to manage the property of others.)
- **Court bonds** (used to settle legal arguments that do not involve monetary damages. Their primary purpose is to protect obligees against loss in case principals are not able to prove that they are legally entitled to the legal remedy they sought against the obligees.)
Miscellaneous Types of Bonds

- **Public Official bonds** (required by law) guarantee that public officials will handle public money correctly and otherwise perform their duties faithfully and honestly.

- **License And Permit bonds** (sometimes required in connection with the issuance of licenses by government agencies. They guarantee that the person who posts the bond will comply with all applicable laws pertaining to their activities.)

State Insurance Law

See your manual for details

E-Z Learning Cards

Use these cards in addition to following the instructions on page 4

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