CIC | COMMERCIAL MULTILINE

STUDY GUIDE

EXAM PREP AND ANSWER KEY

- **Knowledge Checks**
- **Check-Ins**
- **Self-Quizzes**
- **Sample Exam Questions**
- **Glossary of Terms**

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for Insurance Education & Research

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STUDY GUIDE

EXAM PREP AND ANSWER KEY

This Study Guide has been prepared to enhance your learning experience. It contains all of the Check-In questions, Knowledge Checks, and Self-Quizzes contained within the course, along with an Answer Key and Glossary. Use it as a tool to help practice and assess your knowledge of the course material, but *do not* mistake it for a comprehensive "short-cut" to preparing for the final exam.

Be sure to take a look at the Appendix that follows the Answer Key in this Study Guide. It contains valuable suggestions for test preparation and study techniques, as well as some sample exam questions and a glossary of terms.

Your path to success in passing the final exam will come from your attentiveness during the course and the effort you put into preparation.



THE NATIONAL ALLIANCE
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Tools to Assess Your Knowledge

Check-Ins, Knowledge Checks,
and Self-Quizzes by Topic

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Section 1: Commercial Inland Marine Concepts and Coverage

Part 1
Bailee Coverage

Check-In



Directions: Read the examples below and fill in the blank with the correct term from the word bank. Please note that each term will only be used once.

bailor	**bailee**	**gratuitous bailment for the benefit of the bailor**	**gratuitous bailment for the benefit of the bailee**
bailment for mutual benefit	**reasonable duty of care**	**high duty of care**	**low duty of care**

1. A museum does not allow bags over a certain size to be brought in. Visitors are allowed to store their bags for free in a bag-check area. This relationship is a _____.
   The museum owes a _____.

2. After a snowstorm, the insured borrows a snow blower from a neighboring business. The insured is the bailee, and the neighboring business is the _____.
   The insured owes a _____ because this is a _____.

3. A dry cleaner accepts a customer's clothing to be cleaned. The relationship is a _____, and the dry cleaner owes a _____.

Knowledge Check

Directions: Identify the type of bailment in the scenario below and describe the duty of care owed by the bailee to the bailor.

Maya brings her computer into a computer repair shop after noticing that the new battery she purchased continues to drain as quickly as her last one. Maya is not sure why, but her computer does not seem to hold a charge. The computer repair shop accepts Maya's laptop for repair.

_____

_____

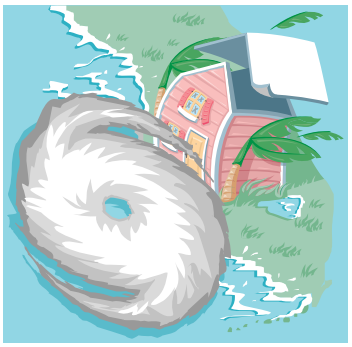
_____

Bailee Coverage Options: Legal Liability or Direct Damage

Knowledge Check

Directions: Read the following scenario and explain your response.

Although Artie boarded up the windows to his building in advance of the storm, Artie's Appliance Repair Shop was seriously damaged by hurricane-force winds. In addition to the damage to the building and Artie's own property, many customer appliances were damaged beyond repair. How would Artie's bailee coverage written on a direct damage basis respond to this loss? How would Artie's bailee coverage written on a legal liability basis respond to this loss?



Assume that wind is a covered cause of loss.

_____

_____

_____

_____

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The Bailee Coverage Form

Check-In



Directions: Given the types of property covered and not covered, should **Miscellaneous Bailee – Processor Floater (IM 7501 04 04)** be used for the following businesses? Explain your answers.

1. A jewelry store that resets stones and repairs jewelry

   _____

   _____

2. An auto detailing shop

   _____

   _____

3. A business that repairs commercial copiers and printers

   _____

   _____

4. A business that repairs kayaks

   _____

   _____

Knowledge Check

Directions: Read the scenario below and explain your response.



Connie's Cabinetry refinishes custom kitchen cabinets for home remodeling contractors in the area. Connie typically picks up the cabinets from the home and brings them to her shop for refinishing, delivering them back to the home when the structural renovations are complete. Describe how coverage might apply for each of the following exposures.

1. Cabinets being refinished in Connie's shop

   _____

2. Cabinets in Connie's delivery truck, between the home and the shop

   _____

3. Cabinets Connie sends to a glazier if glass cabinet fronts need to be replaced

   _____

4. Cabinets Connie stores at her shop until the customer is ready to take delivery

   _____

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Covered Causes of Loss

Knowledge Check



Directions: Consider the following scenarios and determine whether or not the following losses are covered under **Miscellaneous Bailee – Processor Floater (IM 7501 04 04)?** Be sure to explain your answers.

1. While Connie of Connie's Cabinetry is refinishing a cabinet, the sander malfunctions, causing damage to the intricate detail work on a cabinet front.

_____

2. A steam boiler in the commercial laundry explodes, damaging customers' clothing.

_____

3. Rita of Rita's Restorations delivers wooden doors and cabinets from her workshop to a customer's home. There is a flash flood, and all of the materials in the truck are damaged by the water.

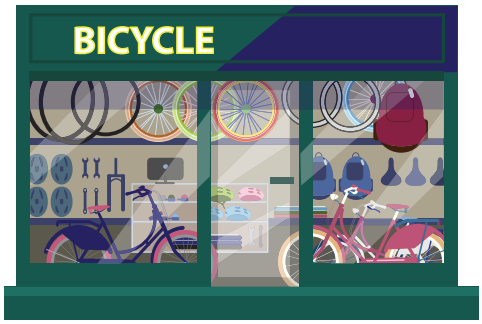
_____

4. An equipment repair shop gets a call to deliver a repaired item to a different address than the one on the repair order. It turns out that the call did not come from the customer, but from a thief who diverted the delivery to steal the property.

_____

Valuation and Payment of Losses

Knowledge Check



Directions: Explain how the following claim will be paid under the **Miscellaneous Bailee – Processor Floater (IM 7501 04 04).**

Brigid's Bicycle Shop repairs racing bikes for its customers. Faulty wiring in Brigid's building caused a fire, resulting in damage to several customer bikes. Brigid presents claims for the following. Assume that the limits of insurance are adequate to cover any covered claims.

1. The value of twenty bikes, owned by a racing team, that were destroyed in the fire

_____

2. $4,000 in charges for work done on bikes that were repaired and awaiting pickup

_____

3. The value of two bikes that were not damaged in the fire—the racing team that owns the twenty damaged bikes wants all twenty-two of its bikes to match. That style of bike is no longer manufactured.

_____

_____

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Section 1, Part 1, Self-Quiz

Directions: Match the bailment relationship to the duty of care owed by the bailee to the bailor.

A. Low duty of care **B.** Reasonable duty of care **C.** High duty of care	_____ A garage takes in a customer's vehicle for repair.
	_____ A contractor lends a friendly competitor its bulldozer while the competitor's bulldozer is being repaired.
	_____ A warehouse owner offers to store cookies for a local Girl Scout troop at no charge.

Directions: Read the statements below and for each one, determine whether it is true or false.

1. Bailment is the relationship where one party (the bailee) accepts property of another (the bailor) for a particular purpose.

True **False**

2. In a gratuitous bailment for the benefit of the bailee, the bailee owes the bailor a *low* duty of care.

True **False**

3. A waterpark allows visitors the option to store their personal belongings for free in a bag-check area. This relationship is known as a bailment for mutual benefit.

True **False**

4. After a rainstorm, the insured borrows a water pump from a neighboring business to remove water from the basement of the insured's building. The insured is the bailee, and the neighboring business is the bailor.

True **False**

5. If a bailee is negligent, and the loss is due to a covered peril, coverage written on a legal liability basis would apply.

True **False**

6. With coverage written on a direct damage basis, most policies **only** pay for damage to the property; they **do not** pay for charges the insured has earned from the work performed.

True **False**

7. Uncovered containers of lead paint at a commercial paint company spill during a windstorm, damaging property in the bailee's care. In this scenario, there would be coverage for the damaged property.

True **False**

8. Mechanical breakdown, temperature or humidity changes, and loss by artificially generated electrical currents are commonly excluded in bailee forms.

True **False**

9. Mark decides to steal a tractor from a repair shop. To do so, he visits the shop and claims he is there to retrieve "his" tractor but has lost the claim ticket. Mark fools the shop employee who hands over someone else's tractor. There is no coverage when the actual owner of the tractor makes a claim against the repair shop.

True **False**

10. Under a bailee policy, one of the options the insurer has with respect to how a claim will be settled is to take all or any part of the property at the agreed or appraised value.

True **False**

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Part 2

Builders Risk

Check-In



Directions: What are some reasons why builders risk is a better choice than property coverage for insuring a building under construction? Use features of the **Building And Personal Property Coverage Form (CP 00 10 10 12)** with **Causes Of Loss – Special Form (CP 10 30 09 17)** as the basis for your response.

Who Is the Insured?

Knowledge Check

Directions: Read the scenario below and explain your response.



Jennifer, your insured who is a property developer, doesn't understand the advantages of having numerous parties included as insureds on the builders risk policy she is about to purchase. After all, isn't this her building, and shouldn't the insurance be for her benefit only? How would you address her concerns?

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What Does the Builders Risk Policy Cover?

Check-In



Directions: Answer the questions below based on **Builders' Risk Coverage – Scheduled Jobsite Form – Comprehensive Form (IM 7050 07 20).**

1. The policy only covers property that will become part of the finished project.

   True **False**

2. The jobsite limit of insurance also applies to property in transit on the way to the jobsite.

   True **False**

3. For the supplemental coverage, Temporary Storage Locations, to apply, property must be specifically allocated to or otherwise identified with covered "buildings or structures."

   True **False**

Check-In

Directions: Read the scenarios below and explain your response.



There is a fire at a construction site where a new big box store is being built. You are an adjuster in training and are working on your first big claim. You have established that all the damaged items are part of the jobsite as described on the schedule of coverages and must now determine what is covered property. The project is insured using an unendorsed **Builders' Risk Coverage – Scheduled Jobsite Form – Comprehensive Form (IM 7050 07 20),** and the following are damaged. Explain why coverage does or does not apply to each type of property.

1. Lumber that is stored on the jobsite and which was to have been used in the building project

_____

_____

2. Part of the foundation that was not fully cured when the fire happened

_____

_____

3. A contractor's forklift that was left in the parking lot overnight

_____

_____

4. Scaffolding erected on the north side of the building

_____

_____

5. A section of parking lot near the building

_____

_____

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Check-In



Directions: Read the scenario below and explain your response.

ABC Development, Inc., is constructing a new condominium building insured on **Builders' Risk Coverage – Scheduled Jobsite Form – Comprehensive Form (IM 7050 07 20).** The building under construction is seriously damaged in a hurricane, and the town orders ABC to demolish the building. In addition, since building codes have changed since the project started, ABC will need to rebuild with fire resistive construction rather than masonry non-combustible and include sprinklers that were not part of the original design. Explain how the builders risk ordinance or law coverages can help ABC.

_____

_____

_____

_____

_____

_____

Knowledge Check

Directions: Read the scenarios below and determine whether coverage applies under the builders risk coverage extensions or supplemental coverages. Explain your answers.



Your adjuster training at the big box store construction site fire is going well. You did such a great job figuring out what is covered property, your supervisor asks you to help determine whether coverage for the following applies under the builders risk coverage extensions and supplemental coverages. Recall that the project is insured using an unendorsed **Builders' Risk Coverage – Scheduled Jobsite Form – Comprehensive Coverage Form (IM 7050 07 20).**

1. After assessing the cost to remove the debris of damaged covered property from the site, it appears that:
   - $1,000,000 of the $5,000,000 limit will be paid for direct damage.
   - Debris removal costs are $200,000.

_____

_____

_____

2. While most of the building was severely damaged in the fire, there is a 1,000 square foot section that was not damaged. The town ordinance, though, requires that this section of the building be demolished.
   - The value of the undamaged section is $250,000.
   - The cost to demolish the undamaged section and remove the debris is $25,000.

_____

_____

_____

3. At some point in the reconstruction process, the insured will need to re-erect the scaffolding that wasn't damaged in the fire but which needs to be taken down. It will cost $4,000 to re-erect.

_____

_____

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Check-In



Directions: Explain why the following losses are or are NOT covered under the unendorsed **Builders' Risk Coverage – Scheduled Jobsite Form – Comprehensive Form (IM 7050 07 20).** Assume that the damaged property is covered property.

1. A power surge damages the circuitry in the newly installed elevators.

   _____

2. Copper pipes that were to have been installed the following day are stolen from the jobsite. Even though witnesses saw them flee, the thieves are never caught.

   _____

3. It is discovered that a newly poured concrete slab is at the wrong angle, and the work needs to be redone.

   _____

4. The insured's jobsite is located downhill from a shopping mall with a large parking lot. After a large amount of rain fell within a two-day period, water runoff from the shopping mall damaged materials stored at the insured's jobsite.

   _____

Knowledge Check



Directions: Read the following scenario and provide a response.

Carmen is having a new building constructed and doesn't understand the importance of including coverage for cold/operational/building start-up testing in the builders risk policy. How would you explain the importance of this coverage to Carmen?

_____

_____

_____

Builders Risk Policy Coverage Term

Knowledge Check

Directions: Read the scenario below and explain your response.



Shoppers, Inc., is building a new strip mall on the edge of town and secures builders risk coverage for a one-year term using **Builders' Risk Coverage – Scheduled Jobsite Form – Comprehensive Form (IM 7050 07 20).** Ten months into the policy term, the first section of the building is complete, and a tenant is allowed to move in. Explain how Shoppers' coverage is affected by this occupancy, and how the problem could have been avoided.

_____

_____

_____

_____

Valuation and Payment of Losses

Check-In

Directions: Identify several coverages for which a sublimit of coverage may apply.

_____

_____

_____

_____

_____

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The Time Element Side of Builders Risk (Delay in Completion)

Knowledge Check

Directions: Read the scenario below and explain your response.



Your customer is about to start construction on a new office building that will be leased to others. Using coverage options from **Delay In Completion Coverage Part Includes Rental Income And Income Coverage (IM 7079 07 20),** what coverages would you recommend and why?

Installation Floater

Knowledge Check



Directions: Read the scenario below and explain your response.

Henry's Hardwood installs hardwood floors. Approximately 50% of Henry's work is new construction where a builders risk policy may be in effect. The rest of Henry's work involves installing flooring in existing buildings. Explain to Henry why he may want to consider purchase of an installation floater.

_____

_____

_____

_____

_____

_____

_____

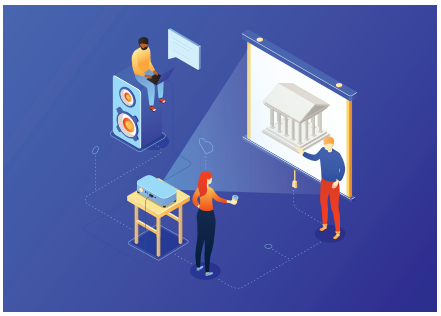
_____

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Installation Floater – The Policy Coverage

Knowledge Check

Directions: Read the scenarios below and explain your responses.



Amazing AV Systems installs large audiovisual systems in office buildings, conference rooms, and sports arenas. Amazing wants to better understand the coverage provided under its unendorsed **Installation Floater Coverage (IM 7100 08 10)** and asks whether the following are covered. How will you respond?

1. Amazing hires a helicopter to place a large screen on the top of a 10-story building. Is the screen covered while it is being lifted into place?

_____

_____

2. Some of Amazing's customers purchase their own TV screens to be used in their projects. Amazing installs them along with the rest of the equipment supplied by Amazing. Are these TV screens covered property during the installation process?

_____

_____

3. Amazing brings a forklift to installation sites to move property. Is the forklift covered?

_____

_____

Knowledge Check



Directions: Read the scenario below and explain your response.

Carter's Custom Woodwork wants to better understand the coverage under its newly purchased **Installation Floater Coverage (IM 7100 08 10)** form. Carter understands that coverage applies to property being installed while it is at the jobsite, but questions if there is coverage away from the jobsite. How will you respond?

_____

_____

_____

_____

When Does Coverage End?

Knowledge Check



Directions: Explain why coverage under **Installation Floater Coverage (IM 7100 08 10)** does or does not apply in the following scenario.

Michael's Millwork was hired to install a new staircase in a customer's home. The customer paid the deposit, and the staircase was delivered to the jobsite. The customer's second check to Michael bounced before the installation began. Michael cancelled the contract and decided to leave the staircase there since it would be difficult to remove it under the circumstances. One month later, a fire in the home damaged the staircase.

_____

_____

_____

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Endorsements and Additional Coverage Forms

Check-In



Directions: Fill in the blanks uses the options below.

flood	earthquake	mysterious disappearance	employee theft	contract penalties
Additional Installation Expenses coverage	**Additional Soft Costs coverage**	**hot testing**	**cold testing**	**commissioning**

1. _____ means the operation of equipment or machinery with feedstock or other materials for processing under production conditions for the purposes of attaining specification requirements or for training operational personnel.

2. Contractors who cannot complete a project on time often face _____ for noncompliance with the contract provisions.

3. _____ means the checking of the component parts of equipment or machinery by mechanical, electrical, hydrostatic, or other forms of testing under dry run conditions.

4. _____ includes design fees, financing, lease administration, professional fees and permit fees.

5. _____ means the checking of the component parts of equipment or machinery under load or operational conditions.

6. _____ includes interest payments, realty taxes, lease expenses and insurance premiums.

7. Coverage for _____ and/or _____ as covered causes of loss can often be added. Separate limits and/or deductibles often apply to loss by these added perils.

Section 1, Part 2, Self-Quiz

Directions: Read the statements below and for each one, determine whether it is true or false.

1. General contractors, subcontractors, and project owners/developers are all parties that may need to be included as insureds on a builders risk policy.

True **False**

2. An advantage to including numerous parties as insureds on a builders risk policy is that it helps to avoid litigation and limit subrogation.

True **False**

3. Builders risk policies cover three separate types of property: property that will become a permanent part of the described project, scaffolding and other temporary structures, and equipment that contractors use during the construction process.

True **False**

4. A group of teenagers on four-wheelers destroys a freshly graded site; this act of vandalism is covered under builders risk.

True **False**

5. If a covered peril damages covered property, the insured may incur additional expenses to get the project back on track so it can be finished by the original completion date in the contract. This is an example of Ordinance Or Law under a builders risk policy.

True **False**

6. With Group 1 Exclusions, if the loss involves any of the listed excluded perils, the entire loss is excluded, even if a covered peril contributes to the loss.

True **False**

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Directions: Read the following multiple-choice questions and select the correct response for each one.

1. In a builders risk policy, coverage ends when one of the coverage-ending triggers occurs. Which of the following does NOT end coverage?

   - ☐ The policy expires or is cancelled.
   - ☐ The named insured abandons construction with no intent to complete it.
   - ☐ Covered buildings or structures have been completed for more than 30 days.

2. When it comes to rental income and income coverages, if a project is delayed due to damage by a covered cause of loss, a waiting period:

   - ☐ typically applies and is shown on the **Delay in Completion Schedule (IM 7080 07 20).**
   - ☐ does not apply; immediate reimbursement is provided.
   - ☐ typically applies and is shown on the **Installation Floater Coverage (IM 7100 08 10).**

3. Trade contractors may purchase installation floaters because they:

   - ☐ are required to insure items they have been hired to repair.
   - ☐ typically have no input into the choice of builders risk policy limits and coverage features which might result in responsibility for a builders risk deductible higher than they can afford to carry.
   - ☐ want to insure their inventory stored at their own premises.

4. **Installation Floater Coverage (IM 7100 08 10)** covers property at a jobsite that the named insured is:

   - ☐ installing or rigging
   - ☐ installing, rigging, and later destructing
   - ☐ constructing or rigging
   - ☐ installing, constructing, or rigging

5. Each of the following is an example of property not covered under an installation floater, EXCEPT:

   - ☐ machinery to be installed at the named insured's jobsite
   - ☐ airborne property
   - ☐ trees, shrubs, and plants
   - ☐ contraband at the named insured's jobsite

6. Identify one of the possible reasons that installation floater coverage might end before the policy term expires.

   - ☐ The project has been occupied in whole or in part.
   - ☐ The project has been completed for fourteen days.
   - ☐ The named insured abandons the installation project with no intent to complete it.
   - ☐ Roofs and walls are put to their intended purpose.

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Part 3

Contractors Equipment Coverage

Check-In



Directions: Read the statements below and for each one, determine whether it is true or false.

1. A forklift used only on the insured's premises can be covered on a commercial property policy, like ISO **Building And Personal Property Coverage Form (CP 00 10 10 12)**.

True **False**

2. **Causes Of Loss – Special Form (CP 10 30 09 17)** covers a contractor's tools stolen from a jobsite, making contractors equipment coverage unnecessary to cover this exposure.

True **False**

The Contractors Equipment Policy

Check-In



Directions: Read the statements below and for each one, determine whether it is true or false.

1. A contractors equipment policy must include a list of the items covered under the policy.

True **False**

2. Contractors equipment policies may be written with a catastrophe limit that is less than sum of the values of covered equipment

True **False**

Knowledge Check

Directions: Read the scenario below and explain your response.



You are meeting with a prospective client, a site development contractor. The client's company does occasional construction of pre-cast concrete bridges and puts equipment on a barge for part of the operation. Your client asks whether the unendorsed **Contractors' Equipment Coverage (IM 7000 04 04)** policy you are proposing will cover the barge and the equipment on the barge. How will you respond? Explain why coverage will or will not apply.

_____

_____

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Check-In

Directions: Explain whether coverage under **Contractors' Equipment Coverage (IM 7000 04 04)** applies in the following situations.



1. Lola's Landscaping bought a new lawnmower for $5,000 and forgot to notify the contractors equipment insurer. Four months after the item was purchased, it was stolen.

_____

_____

2. One of Lola's employees has tools that are used in Lola's business. The tools are stolen from the employee's garage.

_____

_____

3. Lola rented a weed wacker for one week since hers is in the shop for repair. It was stolen along with the lawn mower.

_____

_____

Check-In



Directions: Read the scenario below and explain your responses.

You are working with a new client who has had several equipment losses over the past five years, only some of which were paid by the insurer. Your client asks whether the following would be covered under the unendorsed **Contractors' Equipment Coverage (IM 7000 04 04)** you are proposing.

1. The insured's employee steals a front-end loader that was left on a jobsite.

   _____

2. A piece of equipment is being transported to a remote jobsite when a flash flood hits, causing extensive damage to the item.

   _____

Knowledge Check



Directions: Read the scenario below and explain your response.

Your insured recently purchased a crane and wants to add it to the contractors equipment schedule. Applying your knowledge of contractors equipment exclusions, describe which exclusions are especially problematic for those with cranes.

_____

_____

_____

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Valuation and Payment of Losses

Check-In



Directions: Which valuation method would you recommend for the following equipment items?

1. The insured wants to buy only new equipment and typically trades in equipment after it is only a few years old.

_____

_____

2. The insured often builds the equipment used or makes significant modifications to purchased equipment.

_____

_____

3. The insured likes to buy used equipment at auctions where a good deal can always be found.

_____

_____

Knowledge Check

Directions: Read the scenario below and answer the questions.



Tiffany's backhoe is damaged by a covered cause of loss. Coverage is written on **Contractors' Equipment Coverage (IM 7000 04 04)** with ACV valuation and a 2% deductible. There is no coinsurance percentage on the Schedule of Coverages so coinsurance does not apply. The backhoe has an ACV of $110,000, but the limit of insurance on the backhoe is only $100,000. The cost to repair the damage to the backhoe is $20,000.

Answer the following questions for Tiffany:

1. What does ACV mean?

_____

2. What deductible will apply?

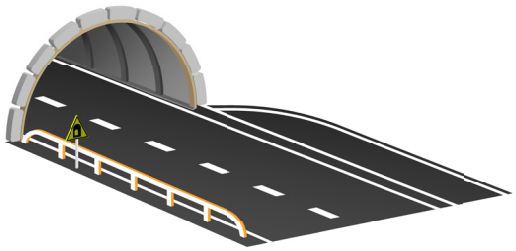
_____

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The Time Element Side of Contractors Equipment

Knowledge Check

Directions: Read the scenario below and explain your response.



Your insured won the bid to construct a new traffic tunnel. Collaborating with a great underwriter, you were able to amend policy language to cover the tunnel boring machine as contractors equipment. After having performed well for several months, the machine was damaged when it hit a steel pipe that no one realized was there. It took two months to repair the machine and resume operations. It was not possible to use a replacement piece of equipment to get the project back on track.

How might **Contractors' Equipment Income Coverage (IM 7027 04 04)** help?

_____

_____

_____

_____

Section 1, Part 3, Self-Quiz

Directions: Read the statements below and for each one, determine whether it is true or false.

1. The **Schedule Of Coverages (IM 7005 01 12)** is attached to the contractors equipment policy to describe the covered property, policy limits, deductible, and coverage features.

True **False**

2. Self-propelled vehicles designed and used primarily to carry mounted equipment are NOT considered contractors equipment under **Contractors' Equipment Coverage (IM 7000 04 04).**

True **False**

3. In a contractors equipment policy, property that the named insured leases or rents to others is covered.

True **False**

4. **Contractors' Equipment Coverage (IM 7000 04 04)** includes up to $5,000 coverage per occurrence for employees' tools on the named insured's premises or a jobsite.

True **False**

5. A Weight Of Load Exclusion applies when the weight of the load, under the operating conditions at the time of loss, exceeds the capacity that the equipment is designed to lift.

True **False**

6. In **Contractors' Equipment Income Coverage (IM 7027 04 04),** "restoration period" is the time it should reasonably take to resume the insured's business to a similar level after physical loss of or damage to covered contractors' equipment that is caused by a covered peril. Income coverage applies for a maximum of thirty days.

True **False**

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Directions: Read the statements below and fill in the blank with the appropriate word(s) from the word bank.

actual cash value	replacement cost	lost or damaged part	pair or set	coinsurance

7. Many contractors equipment policies have _____ conditions that require insureds to carry an appropriate limit of insurance and which, at the time of a loss, penalize those that do not.

8. The value of covered property will be based on the _____ without any deduction for depreciation unless Actual Cash Value is indicated on the schedule of coverages.

9. The value of a lost or damaged article which is part of a group is based on a reasonable proportion of the value of the entire _____.

10. The value of a lost or damaged part of an item that consists of several parts when it is complete is based on the value of only the _____ or the cost to repair or replace it.

11. _____ valuation includes a deduction for depreciation.

Part 4

Types of Carriers and the Liability of Each

Check-In



Directions: For which one of the following would a common carrier be legally liable?

- ☐ The ATF confiscates the cargo in a FedEx truck, believing that illegal firearms are being shipped.
- ☐ The cargo in a UPS truck is damaged in an earthquake.
- ☐ Cargo in the truck of a common carrier is damaged in an auto accident.
- ☐ A shipper of glassware did not pack the goods properly before shipment, and the glassware is broken when it arrives.

Knowledge Check



Directions: Read the scenario below and respond to the question.

Sharon from Sharon's Shirt Company doesn't understand why the contract carrier she uses to transport her goods wouldn't be responsible to pay for the value of the shirts if the shirts are damaged in transit. How would you explain this to Sharon?

_____

_____

_____

_____

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Why Purchase Transportation Coverage?

Knowledge Check



Directions: Read the scenario below and explain your response.

Your client manufactures cell phone accessories and ships them using common and contract carriers. Your client asks you why a transportation policy should be purchased. Walk through how you would advise your client.

_____

_____

_____

_____

_____

_____

The Transportation Policy

Check-In



Directions: Read the scenario below and explain your response.

Lorelei's Lumberyard has a transportation policy with the following limits:

Owned Vehicle – $500,000

Carrier for Hire – $500,000

Catastrophe Limit – $1,000,000

Building materials are being delivered to a construction project. Two of Lorelei's trucks are carrying $400,000 of material each. Two contract carriers are carrying $300,000 each. A tornado strikes while the four vehicles are in transit, and all the materials are destroyed. How much will be paid?

_____

_____

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Check-In



Directions: For each of the questions following based on the unendorsed **Transportation Coverage (IM 7250 04 04),** select the best answer**.** Assume that limits apply for all modes of transportation and that the description of covered property on the schedule of coverages is broad enough.

1. Which of the following, in the due course of transit, is NOT covered property?
   - ☐ Computers the insured ships via Federal Express
   - ☐ Computers the insured ships via the U.S. Postal Service
   - ☐ Computers the insured ships via a contract carrier
   - ☐ Computers the insured ships via railroad
2. Which of the following, in the due course of transit, is covered property?
   - ☐ Gold earrings the insured has crafted and shipped to a jewelry store via Federal Express
   - ☐ Electronics the insured backhauls after having delivered a truck full of its own products to a distribution center
   - ☐ Electronics the insured has manufactured that are being shipped to a distribution center via contract carrier
   - ☐ Raw materials the insured is importing while on an aircraft

Check-In



Directions: Read the scenario below and explain your response.

The insured is transporting liquid chocolate in an owned tanker truck. The truck overturns, and the tank ruptures. Chocolate must be removed from the roadway. In addition, some of the chocolate has entered a nearby stream and is considered a pollutant in this jurisdiction. How might the coverage extensions and supplemental coverages in **Transportation Coverage (IM 7250 04 04)** help the insured?

_____

_____

_____

_____

_____

_____

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Check-In



Directions: Read the scenario below and respond to statements that follow.

Ichabod's Ice Cream ships ice cream to various states using a variety of conveyances: aircraft, railroad car, owned vehicles, and contract carriers. Coverage is written using **Transportation Coverage (IM 7250 04 04)** with the **Refrigerated Equipment Breakdown Endorsement (IM 7275 01 12),** and adequate limits of insurance apply to each of the four modes of transportation.

Does coverage apply to the following losses?

1. Ichabod ships ice cream on his own refrigerated truck. The last time he inspected the refrigeration unit was three months before the refrigeration unit broke down. $200,000 of product melted.

   Yes **No**

2. Ichabod ships ice cream via railroad to another state. The refrigeration unit on the railroad car breaks down, and the $300,000 of product melted.

   Yes **No**

3. Ichabod hires a contract carrier to ship product via truck. The truck's refrigeration unit breaks down, and $200,000 of product melted.

   Yes **No**

Knowledge Check



Directions: Read the scenario below and explain your responses.

Natalie of Natalie's Naturals, a manufacturer of nutritional supplements, is trying to understand how coverage under her unendorsed **Transportation Coverage (IM 7250 04 04)** applies. She only ships goods in her own trucks. She has asked whether the following hypothetical losses would be covered. How do you respond?

1. Natalie's driver, an employee, steals several cases of protein powder from a truck that is delivering product to local stores.

_____

_____

2. Natalie is about to start manufacturing and shipping a new line of pre-made shakes that must be refrigerated. What if the refrigeration unit in the truck breaks down and the product spoils before it can be delivered?

_____

_____

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Section 1, Part 4, Self-Quiz

Directions: Match the term with the correct definition.

A. Contract carriers **B.** Private carriers **C.** Public authority **D.** Common carriers **E.** Acts of God/nature	_____ Provide transportation for hire to the public and are strictly liable for the goods they are transporting unless they can prove that they were not negligent and that one of five exceptions applies
	_____ Transport their own property on their own vehicles; liability to others for damage to cargo is a non-issue
	_____ Paid to deliver goods for specific shippers; liability is established in the agreement between the parties rather than under law as with a common carrier
	_____ The exception to common carrier liability that refers to physical perils beyond the control of the carrier such as floods, earthquake, and storms
	_____ The exception to common carrier liability that applies when action of a governmental entity is the reason the cargo is damaged

Directions: Read the statements below and for each one, determine whether it is true or false.

1. One of the benefits of purchasing a transportation policy is that it is more cost-effective for most insureds than purchasing additional coverage from the carrier.

True **False**

2. Claims made under first-party coverage, such as a transportation policy, are usually settled more quickly than third-party claims made against a carrier.

True **False**

3. An insured purchasing a transportation policy can typically only arrange for limited coverage with limits and terms that many not properly address the exposure.

True **False**

4. Property in a terminal and property in transit are two basic types of property that can be covered under **Transportation Coverage (IM 7250 04 04).**

True **False**

5. Jewelry, contraband, property in storage, and sales representative samples are all examples of property COVERED under **Transportation Coverage (IM 7250 04 04).**

True **False**

6. Debris Removal and Property You Have Sold are two coverage extensions included in **Transportation Coverage (IM 7250 04 04)**.

True **False**

7. $10,000 is the annual aggregate limit for Pollutant Cleanup And Removal in **Transportation Coverage (IM 7250 04 04).**

True **False**

8. Property preserved and maintained under controlled conditions and susceptible to loss or damage if the controlled conditions change refers to “perishable stock.”

True **False**

9. **Refrigeration Breakdown Endorsement (IM 7275 01 12)** imposes no additional responsibilities on the insured, prior to the loss, with respect to owned vehicles.

True **False**

10. Under **Transportation Coverage (IM 7250 04 04),** if there is an invoice, the valuation is based on the invoice amount plus accrued costs, pre-paid charges, and charges since the shipment.

True **False**

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Section 2: Employment Practices Liability Insurance

The Need for Employment Practices Liability Insurance

Knowledge Check

Directions: Read the following scenario and explain your thinking.



Gillian's Gym is a small company employing only three people. Gillian knows that her company is too small to be subject to many of the federal employment statutes, so she decides to forego purchase of an EPLI policy. Explain to Gillian why her logic is flawed.

_____

_____

_____

The EPLI Insuring Agreement

Check-In



Directions: Complete each sentence with the appropriate word or phrase.

actual termination	wrongful termination	defend	constructive termination	negligent retention
quid pro quo	retaliation	discrimination	indemnify	hostile environment

1. Two promises made by the insurer in the ISO EPLI policy are the promise to pay sums the insured becomes legally obligated to pay and the promise to _____ the insured against a suit seeking those damages.

2. _____ sexual harassment occurs when submission to or rejection of unwelcome sexual conduct by an individual is used as the basis for employment decisions affecting such individual.

3. _____ sexual harassment is when unwelcome sexual conduct unreasonably interferes with an individual's job performance or creates an intimidating, hostile, or offensive working environment.

4. _____ is when employment is involuntarily terminated.

5. _____ is when an employer makes the working conditions unbearable so the employee resigns.

6. _____ occurs when an employer fires an employee or takes any other type of adverse action against an employee for engaging in protected activity.

7. Four wrongful acts covered in nearly all EPLI policies are discrimination, _____, sexual harassment, and retaliation.

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Knowledge Check



Directions: Read the following and respond.

Many businesses use independent contractors. Explain some of the approaches insurers take with respect to coverage for independent contractors.

_____

_____

_____

_____

Third-Party Liability Coverage

Knowledge Check

Directions: Read the following scenarios and explain your thinking.

Which of the following scenarios is most likely to be covered under third-party liability? In both cases, assume that the incident is a covered wrongful act under the policy.

Scenario 1



Todd is a server at an upscale restaurant where a regular customer has made inappropriate sexual advances toward him on several occasions. Todd reported the behavior to his manager who insisted that Todd continue to serve this customer and just try to ignore the situation. Todd files a suit against his employer for failing to provide a safe workplace.

Scenario 2

Todd is a server at an upscale restaurant. A regular customer has filed a lawsuit against Todd and the restaurant claiming that Todd made inappropriate sexual advances on a number of occasions.

_____

_____

_____

_____

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EPLI Exclusions

Knowledge Check



Directions: Explain whether the following claims are likely to be covered or excluded under an EPLI policy and explain your answers.

1. Subcontractor LLC enters into a contract with General Contractor LLC and agrees to indemnify General Contractor LLC for any and all damages. Jamie, an employee of another contracting firm working on the jobsite alleges that an employee of Subcontractor LLC sexually harassed her. Jamie also names General Contractor LLC in the lawsuit, alleging that General Contractor LLC did not exercise the proper control over its subcontractors. General Contractor LLC demands indemnification from Subcontractor LLC.

_____

_____

_____

2. Martina and several of her co-workers file claims against their employer. They allege that they should have been paid overtime for the past four months and were not. The named insured employer claims that they are exempt employees and are not entitled to overtime.

_____

_____

_____

Knowledge Check (continued)



3. Cary is an insurance salesperson with a written employment contract that states he cannot be fired without cause. Cary is involuntarily terminated after he did not meet his production goals. Cary claims there are extenuating circumstances and that, under these circumstances, he cannot be fired. He files a claim for breach of the employment contract.

_____

_____

_____

4. Sandra files suit against her employer, ABC Accounting Firm, and one of its officers, Charles. The suit alleges sexual harassment by Charles. Sandra also reports Charles's conduct to the police, and Charles is charged with sexual assault.

_____

_____

_____

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EPLI Defense Provisions

Check-In



Directions: Determine how much will be paid by an EPLI policy in each of the following scenarios. Disregard any deductible or retention.

1. Policy A: $1,000,000 aggregate limit with defense inside the limit

   The insured's first claim of the year is settled with final costs as follows:

   - $800,000 judgment
   - $300,000 defense costs

   _____

2. Policy B: $1,000,000 aggregate limit with defense outside the limit

   The insured's first claim of the year is settled with final costs as follows:

   - $800,000 judgment
   - $300,000 defense costs

   _____

Knowledge Check



Directions: Read the following scenario and respond.

Your insured is concerned that an EPLI insurer might settle claims too freely, damaging the reputation of the insured. Explain how the insuring agreement and consent to settle clause address this issue.

_____

_____

_____

_____

Limit of Insurance

Knowledge Check



Directions: Read the following scenario and explain your thinking.



A new insured has just purchased its first EPLI policy. Explain to your insured the obligations under most policies in respect to the reporting of claims.

_____

_____

_____

_____

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Section 2 Self-Quiz

Directions: Read the statements below and for each one, determine whether it is true or false.

1. Most EPLI policies are written on a right and duty to defend basis.

True **False**

2. If coverage is written on a non-duty to defend form, the insured has complete freedom to choose its own counsel and to settle claims.

True **False**

3. EPLI policies always pay defense costs with the limit of liability.

True **False**

4. An EPLI policy using ISO language is written with a $50,000 deductible. There are $40,000 in incurred defense costs before the claim is dismissed. The insured is not responsible for paying anything.

True **False**

5. The limit of insurance on an EPLI policy is usually an annual aggregate limit.

True **False**

Directions: Read the following multiple-choice questions and select the correct response for each.

6. There are three primary sources of employment-related claims. They are:
   - ☐ Violation of statutes, workplace torts, EEOC claims
   - ☐ Workplace torts, violation of statutes, breach of contract
   - ☐ Contractual liability, breach of contract, violation of statutes

7. Each of the following is an example of a workplace tort claim EXCEPT:
   - ☐ Negligent supervision
   - ☐ Wrongful detention or imprisonment
   - ☐ Invasion of privacy
   - ☐ A claim under Americans with Disabilities Act

8. Claims can be made alleging that an employer breached a written contract of employment or an implied contract. Implied contracts can include which one of the following?

   ☐ Oral promises

   ☐ Email agreements

   ☐ Collective bargaining agreements

Directions: Read the statements below and fill in the blank with the appropriate word(s) from the word bank.

discrimination	**Fair Labor Standards Act (FLSA)**	**wrongful acts**	**website accessibility suit**	**insureds**
application	**Employee Retirement Income Security Act of 1974 (ERISA)**	**third-party liability coverage**	**retaliation**	**quid pro quo**

9. _____ is the phrase the ISO EPLI policy uses to describe the types of claims covered by the policy.

10. Some policies list a variety of _____ bases which might trigger coverage such as race, religious, age, and sex.

11. Submission to or rejection of unwelcome sexual conduct by an individual that is used as the basis for employment decisions affecting such individual is known as _____ sexual harassment.

12. When an employer fires an employee or takes any other type of adverse against an employee for engaging in a protected activity, this is called _____.

13. Partners and members of partnerships or joint ventures, LLC members and managers, and newly acquired organizations (subject to limitations), are some examples of _____ under the ISO EPLI policy.

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14. _____ is often included in an EPLI policy to protect insureds against claims such as discrimination and harassment by those outside the organization.

15. A claim brought by a person with visual or hearing-impairment who is unable to use features of a company website might result in a(n) _____.

16. The _____ is a federal law that sets minimum standards for most voluntarily established retirement and health plans in private industry to provide protection for individuals in these plans.

17. The _____ is a federal law that establishes minimum wage, overtime pay, recordkeeping, and youth employment standards affecting employees in the private sector and in federal, state, and local governments.

18. The _____ becomes part of the EPLI policy; sometimes it is physically attached and sometimes there is language that states it is deemed to be attached.

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Section 3: Crime Coverages and Endorsements

Commercial Crime Insuring Agreements

Check-In



Directions: Identify the insuring agreements in the ISO Commercial Crime Coverage form.

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____

Knowledge Check

Directions: Read the scenario below and explain your response.



You have been invited to bid on the insurance for Eliza's Emporium, a new specialty store opening downtown. Eliza has asked why you recommend the purchase of crime coverage when the commercial property policy with the Causes Of Loss – Special Form you have proposed seems so comprehensive. How would you respond?

_____

_____

_____

_____

_____

_____

_____

_____

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Loss Sustained Form vs. Discovery Form

Check-In



Directions: Regarding loss sustained crime coverage, indicate whether each of the following is true or false. Assume that the insured is not an ERISA employee benefit plan.

1. The extended period to discover loss in a Loss Sustained Form is 60 days.

   True **False**

2. A loss occurs partly during the term of the current policy and partly during the term of a previous policy written by the same insurer. The loss is discovered during the current policy term. The most that will be paid is the lesser of the limit on the current policy and the previous policy.

   True **False**

3. A loss occurs partly during the term of the current policy and partly during the term of a previous policy written by a different insurer. The loss is discovered during the current policy term. The most that will be paid is the lesser of the limit on the current policy and the previous policy.

   True **False**

4. A loss occurs entirely during the term of the previous policy with a different insurer and is discovered under the current policy term. The previous insurer will pay the claim because the insured replaced coverage.

   True **False**

Knowledge Check



Directions: Read the scenario below and explain your thinking.

Sofia worked in the bookkeeping department of Amazing Insurance Agency and had been stealing $100 per week from the company bank account for the last seven years of her employment. It was only after Sofia retired in 2022 that the loss was discovered by the owners of Amazing. Explain how coverage would apply under a Loss Sustained Form as compared to a Discovery Form. Assume that Amazing had the same Employee Theft insurer for all years, from the beginning of Sofia's thefts through the date the thefts were discovered.

_____

_____

_____

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Fidelity Insuring Agreements

Check-In



Directions: Indicate which endorsement is the best to use in each of the situations described below. Select the letter that best matches each scenario.

A. Include Volunteer Workers As Employees (CR 25 09 06 22) **B. Include Designated Persons Or Classes Of Persons As Employees (CR 25 41 06 22)** **C. Include Designated Agents As Employees (CR 25 02 06 22)** **D. Include Computer Software Contractors As Employees (CR 25 42 06 22)** **E. Employee Theft Name or Position Schedule (CR 04 08 06 22)**	_____ The insured has hired a company to act as a business manager. The company is appointed as the insured's agent and has authority to transact business on behalf of the insured.
	_____ The insured is a charity that has volunteers working at events and soliciting funds.
	_____ The insured wishes to only purchase coverage for theft committed by individuals holding certain positions within the company.
	_____ An insured contractor regularly works with a certain subcontractor. The subcontractor has full access to the insured's premises and regularly has the insured's property.
	_____ The insured is concerned that an employee of its independent software contractor might gain access to its banking information and steal funds.

Check-In



Directions: Consider the following scenario and determine if Employee Theft coverage applies. Explain your answer.

Megan, a supermarket cashier, recommends that her boss hire Kevin, an old friend of hers, who was previously convicted of shoplifting. Kevin was a young man at the time, and Megan believes he is now trustworthy. Neither Megan nor Kevin mentions Kevin's past to the boss, and six months after he is hired as a cashier, Kevin steals from his new employer. Does Employee Theft Coverage apply?

Yes **No**

_____

_____

Knowledge Check



Directions: Read the scenario below and explain your answer.

Your insured is a janitorial service with twelve employees and a 401(k) plan. Which of the three Fidelity coverages would you recommend and why?

_____

_____

_____

_____

_____

_____

_____

_____

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Computer And Funds Transfer Fraud and Fraudulent Impersonation Insuring Agreements

Knowledge Check



Directions: Read the scenario below and explain your response

Carla is an employee in the finance department of your insured's company. Carla got tricked into sending $200,000 to a cybercriminal after receiving an email asking that this amount be wired immediately. The email Carla received looked legitimate and was similar to many others emails she had received in the past from the company's controller.

It was only when Carla confirmed with the controller that the transfer was made that she discovered she had been tricked. Although the crime policy in force includes Fraudulent Impersonation coverage, what condition could negate coverage?

_____

_____

_____

Additional Insuring Agreements

Knowledge Check

Directions: Read the scenario below and explain your answer.



Bonnie's Bridal Shop, a tenant in a local shopping center, has a growing business. Bonnie regularly exhibits at bridal shows, taking several sample dresses to each one.

Bonnie accepts cash as well as credit cards as payment and often has large sums of money on the premises. Despite this, Bonnie is reluctant to purchase crime coverage other than the Fidelity coverages, Computer And Funds Transfer Fraud, and Fraudulent Impersonation.

What are some claims examples you could share with Bonnie to help her understand the importance of Inside The Premises – Theft Of Money And Securities and Outside The Premises coverages?

Inside The Premises – Theft Of Money And Securities

_____

_____

_____

_____

Outside The Premises

_____

_____

_____

_____

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Section 3 Self-Quiz

Directions: Read the statements below and for each one, determine whether it is true or false.

1. Crime coverage only treats exposures to theft by those outside the insured's organization.

   True **False**

2. Property policies do not cover money and securities.

   True **False**

3. James, an employee at Artie's Art Store, steals a shipment of oil paint to be delivered to a customer. This loss would **not be** covered under a typical property policy.

   True **False**

4. When the Causes Of Loss – Special Form is included on a property policy, there is no coverage if the insured is tricked into giving up property.

   True **False**

5. Forgery Or Alteration, Fraudulent Impersonation, and Outside The Premises are Fidelity insuring agreements.

   True **False**

Directions: Read the following questions and select the correct response for each one.

6. When coverage is written on a Loss Sustained Form, one of the two criteria that must be satisfied to trigger coverage is:

   - ☐ The loss must be discovered within 60 days after the expiration of the policy.
   - ☐ The "occurrence" must take place and the thief must be arrested during the policy period.
   - ☐ The "occurrence" must take place during the policy period.

7. Provided that the coverage is not renewed or replaced, the Discovery Form includes a condition in which the occurrence must be discovered within _____ days following the cancellation or termination of the policy.

   - ☐ 30
   - ☐ 60
   - ☐ 90

8. The three Fidelity insuring agreements are:
   - ☐ Forgery Or Alteration, Fraudulent Impersonation, and Outside The Premises
   - ☐ Fraudulent Impersonation, Forgery Or Alteration, Employee Theft
   - ☐ Employee Theft, ERISA Plan Official Dishonesty, Employee Theft Of Clients' Property
   - ☐ Employee Theft, ERISA Plan Official Dishonesty, Outside The Premises

9. Jessie's Print Shop sends an employee to a client's office to repair a printer. The employee steals computer equipment and two printers. Which insuring agreement would cover the loss?
   - ☐ Agreement 1a – Employee Theft
   - ☐ Agreement 1b – ERISA Plan Official Dishonesty
   - ☐ Agreement 1c – Employee Theft of Clients' Property

10. Stephen is the VP of HR for his company and handles the 401(k) plan funds. Stephen steals $150,000 of those 401(k) plan funds. What type of agreement would cover the loss?
   - ☐ Agreement 1a – Employee Theft
   - ☐ Agreement 1b – ERISA Plan Official Dishonesty
   - ☐ Agreement 1c – Employee Theft of Clients' Property

11. Ella, an employee of the insured, forges the insured's checks and cashes them. From these checks, she keeps $6,000. What type of agreement would cover the loss?
   - ☐ Agreement 1a – Employee Theft
   - ☐ Agreement 1b – ERISA Plan Official Dishonesty
   - ☐ Agreement 1c – Employee Theft of Clients' Property

12. Theft committed by one's entering or changing data or computer programs within the computer system of the insured or that of a third party performing services for the insured is covered by which insuring agreement?
   - ☐ Computer And Funds Transfer Fraud
   - ☐ Fraudulent Impersonation
   - ☐ Forgery Or Alteration
   - ☐ Money Orders And Counterfeit Money

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13. The transferring of money or securities based on instructions from a thief impersonating a client, vendor, or another person with the insured's organization is covered by which insuring agreement?

- ☐ Computer And Funds Transfer Fraud
- ☐ Money Orders And Counterfeit Money
- ☐ Forgery Or Alteration
- ☐ Fraudulent Impersonation

Directions: Select the letter of the insuring agreement that would cover in each scenario.

A. Inside the Premises – Theft Of Money And Securities **B.** Money Orders And Counterfeit Money **C.** Inside The Premises – Robbery Or Safe Burglary Of Other Property **D.** Forgery Or Alteration **E.** Outside the Premises	_____ A gunman enters an electronics store at closing time, threatens the employee working in the store, and steals inventory.
	_____ Thieves break into Marty's Diner and steal cash from the register, damaging the register in the process.
	_____ Marjorie uses her corporate card to take clients out to dinner. One of her guests takes note of the credit card number and uses it later to make expensive purchases by signing Marjorie's name.
	_____ A customer pays for a large purchase with $50 bills that turn out to be fake.
	_____ Carla, an employee of the named insured, is robbed in the parking lot of the bank where she is planning to deposit the day's receipts.

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Section 4: Cyber Exposures and Coverage

Common Cyber Exposures

Knowledge Check

Directions: Read the scenario below and explain your response.



Ned owns a comic book store in the revitalized downtown section of his city. While meeting with Ned to discuss his insurance, you discover that he is also the largest comic book dealer on the Internet, selling his comic books on an international sales platform. While Ned's local sales are lackluster, his e-commerce sales are lucrative.

What cyber exposures does Ned have? Be sure to explain why Ned's property and liability coverages are not sufficient to cover his exposure.

Cyber Insurance Declarations

Knowledge Check

Directions: Read the scenario below and explain your response.



Ivan, your client, calls you as he is confused by the information in his new cyber policy. As you talk to Ivan, please tell him what information is typically included on the Declarations.

_____

_____

_____

_____

Preamble and Definitions

Knowledge Check

Directions: Read the scenario below and explain your response.



Associated Materials Supply, Inc., is purchasing cyber coverage from your agency. Mario, the company's CFO, does not understand some of the terms used in the coverage and would like to know more about them. Since Associated allows employees to use their personal devices to monitor email, Mario would like to know if those are considered part of Associated's computer system.

Using what you've learned from the defined terms found in the ISO Information Security Protection Policy, please respond to Mario's inquiry.

_____

_____

_____

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Insuring Agreements

Check-In

Directions: Read the statements below and for each one, determine whether it is true or false.

1. First party losses are losses that have a direct effect on the insured's operations or property.

   True **False**

2. Eva, the insured, is presented with a demand for ransom in exchange for the return of confidential data. This is an example of a denial of service attack.

   True **False**

3. Meyer Mechanics is a small business with a tarnished reputation due to a recent data breach. This is an example of notification costs.

   True **False**

4. Cyber extortion and ransomware are two separate losses that are typically covered under one insuring agreement.

   True **False**

Knowledge Check

Directions: Read the scenario and explain your response.



Fry My Hair, Inc. (FMH), manufactures blow dryers, curling irons, and flat irons and sells them directly to the public through their e-commerce portal. FMH accepts all major credit cards, including those from outside the U.S., using the daily exchange rate for foreign payments. Since customers generally make repeat orders, FMH stores customer data, including credit card numbers and other personal information.

1. What exposures does FMH have for first party and liability losses if a cyber breach were to occur?

_____

_____

_____

_____

2. What insuring agreements might be important to FMH?

_____

_____

_____

_____

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Limits of Insurance, Retention, Defense and Settlement

Knowledge Check



Directions: Read the following and respond to the questions below; be prepared to explain your thinking.

ACME Supply has an information security breach that results in several types of losses. ACME's cyber policy includes the following insuring agreements, limits, and retentions:

- **Cyber Incident Or Information Security Breach Expense:** limit $300,000; retention $2,500
- **Replacement Or Restoration Of Electronic Data:** limit $100,000; retention $2,500
- **Cyber Incident Or Information Security Breach Liability:** limit $500,000; retention $5,000
- **Payment Card Industry Liability:** limit $500,000; retention $5,000
- **Policy Annual Aggregate Limit:** $1,000,000

1. After the breach, ACME incurs forensic expenses and notification costs of $200,000. Will the policy pay?

   _____

2. ACME has to shut down its e-commerce portal for three days while data is being restored. It loses $400,000 in income during that period. Will the policy pay?

   _____

3. ACME gets sued by customers whose identities were stolen. The claims settle for a total of $400,000. Will the policy pay?

   _____

4. ACME is fined $100,000 based on the terms of the payment card service agreement. Will the policy pay?

   _____

5. How much will ACME pay in retentions for the above losses?

   _____

6. How do the above claims affect the annual aggregate?

   _____

Exclusions

Knowledge Check

Directions: Read the scenario below and explain your response.



During a thunderstorm, lightning strikes the insured's premises, causing damage to its computer systems and corrupting some data. Explain why there would or would not be cyber coverage under the insured's policy.

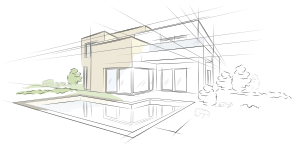
_____

_____

Conditions

Knowledge Check

Directions: Read the scenario below and explain your response.



Exact Architecture and Engineering has a cyber policy in force that was purchased from your agency. In addition to their primary business, they also have a subsidiary that is a general contractor. They are thinking of either selling or shutting down the subsidiary and would like to know how their policy would treat any cyber losses that might be discovered after the sale or shutdown. Please explain how the policy will respond, and list other conditions in the policy, as well.

_____

_____

_____

_____

_____

_____

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Extended Discovery and Reporting Periods

Knowledge Check

Directions: Read the scenario below and explain your response.



Your client, Siros Pharmaceuticals, decides not to renew its cyber policy. Siros asks how long it has, after the policy expires, to report claims for first party losses and wrongful acts that took place prior to expiration of the policy. What do you tell them?

_____

_____

_____

Section 4 Self-Quiz

Directions: Match the term with the correct definition.

A. Content **B.** Claim **C.** Discover or Discovered **D.** Electronic Data **E.** Suit **F.** Preamble **G.** Employee **H.** Cyber Incident **I.** Application **J.** Liability Loss	_____ A place to gather the information necessary for the underwriters to decide on the exposure and insurability of the applicant
	_____ A written demand against an insured for monetary or nonmonetary damages
	_____ Provides important information to the insured before the first section of the policy
	_____ Any type of communicative or informational material, regardless of its nature or form, including material disseminated electronically such as via a website or electronic mail
	_____ Unauthorized access to or use of the organization's computer system
	_____ When any insured becomes aware of facts that would cause a reasonable person to assume a cyber incident or extension event has occurred
	_____ All the information, images, or sounds stored by the insured
	_____ Applies to awards or judgments that compensate the claimant, usually in the form of money, and includes interest on those judgments, including pre- and post-judgment interest
	_____ A civil proceeding in which damages are claimed against the insured and are covered by the policy
	_____ Includes full- or part-time workers, seasonal or temporary workers, leased workers, interns, and volunteers

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Directions: Read the statements below and for each one, determine whether it is true or false.

1. A company collecting the demographic information of their employees is an example of a regulatory exposure.

True **False**

2. When a business's Instagram page becomes hacked, this is an example of websites and social media exposure.

True **False**

3. The ISO Commercial Crime Policy can provide some coverage under selected insuring agreements and endorsements.

True **False**

4. The insuring agreement section of a cyber policy includes key information and risk characteristics of the insured.

True **False**

5. When confidential files are breached, cyber regulations require that affected parties be informed. This is an example of website vandalism first party loss.

True **False**

6. When data is lost, stolen, or damaged in a cyber incident, It must be restored or replaced.

True **False**

7. A third party liability that involves copyright violation has to do with liability pertaining to regulatory issues.

True **False**

8. Under some cyber policies, media liability coverage is called website publishing liability.

True **False**

9. The maximum amount the policy will pay regardless of the total of the limits for each separate insuring agreement is known as the policy aggregate limit of insurance.

True **False**

10. Once the insuring agreement limit is reached, the insurer has no further obligation under that insuring agreement.

True **False**

Directions: Read the following multiple-choice questions and select the correct response for each one.

11. Each insuring agreement will typically be subject to a _____ amount, which will be subtracted from the loss.

- ☐ sublimit
- ☐ retention
- ☐ defense
- ☐ settlement

12. The insurer will need the consent of the insured before entering into a _____.

- ☐ settlement
- ☐ defense
- ☐ claim
- ☐ coverage extension

13. Contractual liability is typically excluded as it relates to cyber policies, however, there are some exceptions. Identify the exception to this exclusion from the list below.

- ☐ A lease agreement for computer hardware
- ☐ A lease agreement for computer software
- ☐ A contract with a cloud computing company
- ☐ Liability the insured would have even if there were no contract or agreement

14. If the named insured consolidates with another entity, and the named insured is NOT the surviving entity, this would be an example of:

- ☐ Confidentiality
- ☐ Cessation of Subsidiaries
- ☐ Merger Or Acquisition Of Named Insured
- ☐ Bankruptcy

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15. In the event of a merger, consolidation, or acquisition of the named insured or cessation of a subsidiary, the named insured has the right to purchase a Run-Off Coverage Period of up to how many years?

- ☐ Four years
- ☐ Six years
- ☐ Ten years
- ☐ Two years

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Section 5: Commercial Excess / Umbrella Coverages

Purposes of Excess Liability Policies

Check-In



Directions: Read the questions and choose the correct response(s).

1. Which of the following are purposes of an excess liability policy that is not a commercial umbrella? (Please choose one or more correct responses.)
   - ☐ To provide additional limits that are excess over those provided in the underlying policies of insurance
   - ☐ To drop down when the aggregate limit of an underlying policy is reduced or exhausted
   - ☐ To provide primary coverage, subject to the SIR, when the excess liability policy provides broader coverage than the underlying policies
2. Which of the following are purposes of a commercial umbrella policy? (Please choose one or more correct responses.)
   - ☐ To provide additional limits that are excess over those provided in the underlying policies of insurance
   - ☐ To drop down when the aggregate limit of an underlying policy is reduced or exhausted
   - ☐ To provide primary coverage, subject to the SIR, when the commercial umbrella provides broader coverage than the underlying policies

Knowledge Check



Directions: Read the following and write your response.

Your insured is trying to understand the difference between a commercial umbrella liability policy and other types of commercial excess liability policies. How would you explain the difference between the two?

_____

_____

_____

_____

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Key Features of the Declarations

Knowledge Check



Directions: Indicate whether the SIR applies in the following situations and explain why or why not.

1. A security firm signs a contract agreeing to indemnify a customer for false imprisonment and wrongful detention losses. The underlying CGL includes contractual liability coverage, but only for bodily injury and property damage claims. The commercial umbrella's contractual liability coverage is broader and applies to these types of personal injury offenses. Does the SIR apply?

   Yes **No**

   _____

   _____

2. The insured's driver causes a multi-vehicle collision. Several people are injured, and there is extensive property damage. The underlying business auto policy responds, but its per accident limit is too low to pay the claims in full. The commercial umbrella responds. Does the SIR apply?

   Yes **No**

   _____

   _____

3. The insured has had a bad year, and by the time the fourth premises liability claim is made, there is only $200,000 left in the CGL's general aggregate. The fourth claim is settled for $500,000, and the commercial umbrella responds once the CGL pays the rest of its $200,000 aggregate. Does the SIR apply?

   Yes **No**

   _____

   _____

Concurrency

Knowledge Check



Directions: Respond to the scenario and explain your reasoning.



An insured with a CGL calls several months into the policy term and wants to add an excess liability policy to its insurance program. Explain why writing excess liability coverage with an effective date later than the CGL's effective date could be a problem, and offer a possible solution.

_____

_____

_____

_____

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Underlying Insurance

Knowledge Check



Directions: Explain how a $3,000,000 excess liability policy will respond in the following situations.

1. A $1,000,000 business auto liability policy is included on the schedule of underlying insurance. That policy cancels for non-payment of premium one month before the insured causes an accident involving significant bodily injury and property damage. The claim settles for $2,000,000.

_____

_____

_____

2. A $1,000,000 CGL policy is included on the schedule of underlying insurance. Three months into the term, the insured reduces the CGL limit to $500,000 to save premium. After that change is made, a products liability claim is made against the insured and settled for $1,500,000.

_____

_____

_____

The Insuring Agreement

Check-In



Directions: Describe three common ways excess liability insuring agreements may apply.

1. _____

_____

_____

2. _____

_____

_____

3. _____

_____

_____

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Knowledge Check



Directions: Read the scenario below and explain your response.

Your insured has heard that some excess liability policies may require the insured pay the claim and await reimbursement from the insurer. Your insured wants to be sure this is not the case with its newly purchased policy. Explain the difference between coverage written on a pay on behalf of basis versus coverage written on an indemnify basis.

_____

_____

_____

_____

_____

_____

Key Coverage Considerations

Check-In



Directions: Indicate whether the following statements are true or false, and include support for your answer.

1. All named insureds on underlying policies are automatically named insureds on stand alone excess liability and commercial umbrella policies.

True **False**

_____

_____

_____

2. It is never necessary to add an additional insured to a stand alone excess liability or commercial umbrella policy.

True **False**

_____

_____

_____

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Check-In



Directions: Choose the appropriate word or phrase to complete each of the sentences below.

defense costs	**punitive damages**	**endorsements**	**property damage**	**within**
ultimate net loss	**duty to defend**	**in addition to**	**mental anguish**	**exclusions**

1. Bodily injury in the ISO commercial umbrella policy includes resultant _____ _____.

2. Some excess liability policies limit coverage to compensatory damages, excluding coverage for _____.

3. In some cases, an excess liability insurer does not have a(n) _____ but may still have the right to participate in the defense.

4. Supplementary payments are paid _____ the limit of insurance.

5. _____ describes the amount the insurer is obligated to pay within the limits of liability.

6. In many excess liability policies, _____ are needed if the aggregate limits are to apply separately to each location and/or project.

Knowledge Check

Directions: Read the scenario below and explain your reasoning.



Joseph, a new insured who understands the importance of defense in a liability policy, asks when an excess liability insurer will defend a claim and how defense costs are paid. How will you respond to Joseph?

Exclusions

Knowledge Check

Directions: Read the scenario below and respond.

Greyson, your long-time customer, has been reading his policy to try to determine whether coverage applies to something that recently happened. He doesn't see an exclusion in the exclusions section, so assumes the policy should respond. Explain to Greyson some of the other places in the policy that should be checked to determine whether coverage applies or is excluded.

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Section 5 Self-Quiz

Directions: Explain the purposes of each type of excess liability policy by identifying its characteristics. Fill in the columns by answering: Yes, No, and Maybe.

Characteristic	Follow form excess liability	Stand alone excess liability	Commercial umbrella
A. Provides additional limits that are excess over those provided in the underlying policies of insurance			
B. Drops down when an underlying aggregate is reduced or exhausted			
C. Provides broader coverage than the underlying policies			
D. Has its own insuring agreement, terms, and conditions			
E. Provides primary coverage, subject to a self-insured retention, if the policy provides coverage that is broader than the underlying policies			

Directions: Read the statements below and for each one, determine whether it is true or false.

1. Most excess liability policies are written on an indemnify basis.

True **False**

2. With dual insuring agreements, some insurers follow the pattern seen in ISO forms and some follow the pattern seen in some AAIS forms.

True **False**

3. A singular insuring agreement is also referred to as a bifurcated form.

True **False**

4. Excess liability policy exclusions only appear in the exclusions section of the policy.

True **False**

5. **Commercial Liability Umbrella Coverage Form (CU 00 01 04 13)** provides coverage when the insured causes fire damage to a rented premises.

True **False**

6. **Commercial Liability Umbrella Coverage Form (CU 00 01 04 13)** provides contractual liability coverage for certain personal and advertising injury offenses.

True **False**

7. Most excess liability insurers are willing to provide coverage for uninsured/underinsured motorist and employment practices liability exposures.

True **False**

8. An excess liability policy is meant to provide additional limits that are excess over those provided in the underlying policies of insurance and to respond to losses when the aggregate limit of an underlying policy is reduced or exhausted.

True **False**

9. The amount the named insured is responsible for when the commercial umbrella provides coverage broader than the underlying policies is known as the self-insured retention (SIR).

True **False**

10. When the commercial umbrella drops down to be primary because its coverage is broader than the underlying policies, the SIR will apply.

True **False**

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Directions: Read the following multiple-choice questions and select the single correct response for each.

11. When policies have the same effective and expiration dates, they are said to be:
    - ☐ Nonconcurrent
    - ☐ Indemnified
    - ☐ Bifurcated
    - ☐ Concurrent

12. Which of the following is **not** a reason why there could be a coverage gap if the excess liability policy and underlying policies have different effective dates?
    - ☐ Excess liability policies typically require the limits of underlying policies be unimpaired as of the effective date of the excess liability policy.
    - ☐ The underlying limits should not have been reduced or exhausted by payment of losses that occurred prior to the effective date of the excess liability policy.
    - ☐ Excess liability policies typically include language that allows the underlying limits to be reduced or exhausted by payment of losses that occur at any time.
    - ☐ The underlying aggregate could have been reduced by payment of losses that occurred prior to the effective date of the excess liability policy.

13. Identify one way to effectively solve a nonconcurrency issue.
    - ☐ Write a short-term excess liability policy to expire with the underlying policy.
    - ☐ Add nonconcurrency language to the CGL policy.
    - ☐ Cancel and rewrite so that all policies have concurrent dates.
    - ☐ Wait until the CGL renews to write the excess liability policy.

14. CGL, business auto liability, and employers liability are:
    - ☐ policies that may be included on the schedule of underlying insurance of an excess liability policy.
    - ☐ underlying policies with aggregate limits.
    - ☐ exclusions on an excess liability policy.
    - ☐ the only policies that can be included on the schedule of underlying insurance.

15. If the insured goes bankrupt or the underlying insurer becomes insolvent, the following will happen:

- ☐ The excess liability insurer is relieved of its obligations, and the excess liability policy will still pay regardless of whether the insured is bankrupt or the insurer becomes insolvent.
- ☐ The excess insurer is not relieved of its obligations, and the excess liability policy will not pay regardless of whether the insured is bankrupt or the insurer becomes insolvent.
- ☐ The excess liability insurer is not relieved of its obligations, and, in the case of an insolvent insurer, will pay as though the underlying coverage were in full effect.

16. Which of the following is true regarding commercial umbrella policies?

- ☐ All named insureds on underlying policies are automatically included as named insureds on a commercial umbrella policy.
- ☐ All additional insureds on underlying policies are automatically included as additional insureds on a commercial umbrella policy.
- ☐ If the underlying CGL general aggregate applies separately to each location, the commercial umbrella aggregate will also apply separately to each location.
- ☐ Ultimate net loss is a term used in some policies to describe the amount that the insurer is obligated to pay within the limits of liability.

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Answer Key

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Section 1: Commercial Inland Marine Concepts and Coverage

Part 1
Bailee Coverage

Check-In



Directions: Read the examples below and fill in the blank with the correct term from the word bank. Please note that each term will only be used once.

bailor	**bailee**	**gratuitous bailment for the benefit of the bailor**	**gratuitous bailment for the benefit of the bailee**
bailment for mutual benefit	**reasonable duty of care**	**high duty of care**	**low duty of care**

1. A museum does not allow bags over a certain size to be brought in. Visitors are allowed to store their bags for free in a bag-check area. This relationship is a gratuitous bailment for the benefit of the bailor. The museum owes a low duty of care.

2. After a snowstorm, the insured borrows a snow blower from a neighboring business. The insured is the bailee, and the neighboring business is the bailor. The insured owes a high duty of care because this is a gratuitous bailment for the benefit of the bailee.

3. A dry cleaner accepts a customer's clothing to be cleaned. The relationship is a bailment for mutual benefit, and the dry cleaner owes a reasonable duty of care.

Knowledge Check

Directions: Identify the type of bailment in the scenario below and describe the duty of care owed by the bailee to the bailor.

Maya brings her computer into a computer repair shop after noticing that the new battery she purchased continues to drain as quickly as her last one. Maya is not sure why, but her computer does not seem to hold a charge. The computer repair shop accepts Maya's laptop for repair.

Sample Answer:

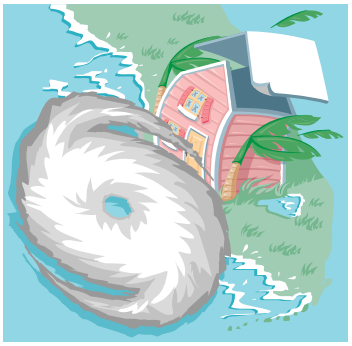
This is bailment for mutual benefit. The bailee owes a reasonable duty of care.

Bailee Coverage Options: Legal Liability or Direct Damage

Knowledge Check

Directions: Read the following scenario and explain your response.

Although Artie boarded up the windows to his building in advance of the storm, Artie's Appliance Repair Shop was seriously damaged by hurricane-force winds. In addition to the damage to the building and Artie's own property, many customer appliances were damaged beyond repair. How would Artie's bailee coverage written on a direct damage basis respond to this loss? How would Artie's bailee coverage written on a legal liability basis respond to this loss?



Assume that wind is a covered cause of loss.

Sample Answers:

The direct damage form would pay for the value of the customers' property as well as for Artie's charges for the repair work performed.

It is unlikely that Artie would be considered legally liable for damage done to customers' property in a hurricane, especially since he took steps to protect the property in advance of the storm. As such, the legal liability form would not pay under these circumstances.

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The Bailee Coverage Form

Check-In



Directions: Given the types of property covered and not covered, should **Miscellaneous Bailee – Processor Floater (IM 7501 04 04)** be used for the following businesses? Explain your answers.

1. A jewelry store that resets stones and repairs jewelry

   No—jewelry, stones, and precious metals are not covered property.

2. An auto detailing shop

   No—self-propelled vehicles designed for highway use are not covered property.

3. A business that repairs commercial copiers and printers

   Yes—this type of property would be covered property.

4. A business that repairs kayaks

   No—watercraft is not covered property.

Knowledge Check

Directions: Read the scenario below and explain your response.



Connie's Cabinetry refinishes custom kitchen cabinets for home remodeling contractors in the area. Connie typically picks up the cabinets from the home and brings them to her shop for refinishing, delivering them back to the home when the structural renovations are complete. Describe how coverage might apply for each of the following exposures.

1. Cabinets being refinished in Connie's shop

   The limit of insurance at the described premises (Connie's shop) applies to the cabinets in the shop.

2. Cabinets in Connie's delivery truck, between the home and the shop

   Supplemental coverage for Transit applies to the cabinets while in the delivery truck, with a limit of $5,000.

3. Cabinets Connie sends to a glazier if glass cabinet fronts need to be replaced

   Supplemental coverage for Off-Site Property applies to the cabinets while at the glazier's facility, with a limit of $5,000.

4. Cabinets Connie stores at her shop until the customer is ready to take delivery

   Supplemental coverage for Property in Storage applies with a limit of $5,000, provided a storage receipt has been issued.

   The limits for these supplemental coverages can be increased by including a higher limit on the schedule of coverages.

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Covered Causes of Loss

Knowledge Check



Directions: Consider the following scenarios and determine whether or not the following losses are covered under **Miscellaneous Bailee – Processor Floater (IM 7501 04 04)?** Be sure to explain your answers.

1. While Connie of Connie's Cabinetry is refinishing a cabinet, the sander malfunctions, causing damage to the intricate detail work on a cabinet front.

   This is not covered; the exclusion for processing work applies.

2. A steam boiler in the commercial laundry explodes, damaging customers' clothing.

   This is covered; there is no steam boiler exclusion in this form.

3. Rose of Rose's Restorations delivers wooden doors and cabinets from her workshop to a customer's home. There is a flash flood, and all of the materials in the truck are damaged by the water.

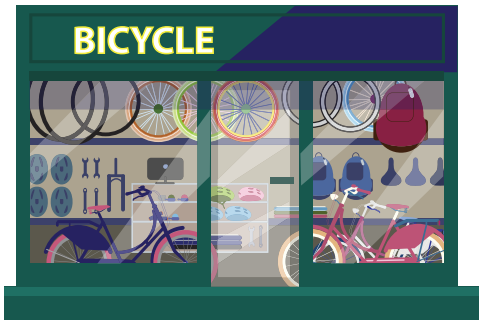
   This is covered. Although the policy has a flood exclusion, there is an exception for property in transit.

4. An equipment repair shop gets a call to deliver a repaired item to a different address than the one on the repair order. It turns out that the call did not come from the customer, but from a thief who diverted the delivery to steal the property.

   This is not covered; the voluntary parting exclusion applies.

Valuation and Payment of Losses

Knowledge Check



Directions: Explain how the following claim will be paid under the **Miscellaneous Bailee – Processor Floater (IM 7501 04 04).**

Brigid's Bicycle Shop repairs racing bikes for its customers. Faulty wiring in Brigid's building caused a fire, resulting in damage to several customer bikes. Brigid presents claims for the following. Assume that the limits of insurance are adequate to cover any covered claims.

1. The value of twenty bikes, owned by a racing team, that were destroyed in the fire

   The policy pays the actual cash value of the damaged bikes.

2. $4,000 in charges for work done on bikes that were repaired and awaiting pickup

   The policy pays charges Brigid has earned from processing work performed.

3. The value of two bikes that were not damaged in the fire—the racing team that owns the twenty damaged bikes wants all twenty-two of its bikes to match. That style of bike is no longer manufactured.

   The value of a lost or damaged article which is part of a pair or set is based on a reasonable proportion of the value of the entire pair or set. The loss is not considered a total loss of the pair or set.

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Section 1, Part 1, Self-Quiz

Directions: Match the bailment relationship to the duty of care owed by the bailee to the bailor.

A. Low duty of care **B.** Reasonable duty of care **C.** High duty of care	___B.___ A garage takes in a customer's vehicle for repair. This is a bailment for mutual benefit. The garage (bailee) owes the customer (bailor) a reasonable duty of care.
	___C.___ A contractor lends a friendly competitor its bulldozer while the competitor's bulldozer is being repaired. This is a gratuitous bailment for the benefit of the bailee. The friendly competitor (bailee) owes the contractor (bailor) a high duty of care.
	___A.___ A warehouse owner offers to store cookies for a local Girl Scout troop at no charge. This is a gratuitous bailment for the benefit of the bailor. The warehouse owner (bailee) owes the Girl Scout troop (bailor) a low duty of care.

Directions: Read the statements below and for each one, determine whether it is true or false.

1. Bailment is the relationship where one party (the bailee) accepts property of another (the bailor) for a particular purpose.

True **False**

Bailment is a relationship where one party (the bailee) accepts property of another (the bailor) for a particular purpose. Inherent in this relationship is an expectation that the property will be returned by the bailee to the bailor in the same or better condition.

2. In a gratuitous bailment for the benefit of the bailee, the bailee owes the bailor a *low* duty of care.

True **False**

In a gratuitous bailment for the benefit of the bailee, the bailee owes the bailor a **much higher** duty of care. If a business (the bailee) borrows a piece of equipment from its neighbor (the bailor), the bailee must exercise great care to ensure that the item is returned in good condition.

3. A waterpark allows visitors the option to store their personal belongings for free in a bag-check area. This relationship is known as a bailment for mutual benefit.

True **False**

This relationship is a gratuitous bailment for the benefit of the bailor.

4. After a rainstorm, the insured borrows a water pump from a neighboring business to remove water from the basement of the insured's building. The insured is the bailee, and the neighboring business is the bailor.

True **False**

A bailee is a person or party to whom goods are delivered for a purpose; a bailor is a person or party that entrusts goods to a bailee.

5. If a bailee is negligent, and the loss is due to a covered peril, coverage written on a legal liability basis would apply.

True **False**

Coverage written on a legal liability basis applies only if the bailee is legally liable for the damage—if, for example, the bailee is negligent.

6. With coverage written on a direct damage basis, most policies **only** pay for damage to the property; they **do not** pay for charges the insured has earned from the work performed.

True **False**

Coverage written on a direct damage basis applies regardless of whether the bailee is legally liable for the loss. As with legal liability coverage, most policies pay for damage to the property as well as any charges the insured bailee has earned from the work performed.

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7. Uncovered containers of lead paint at a commercial paint company spill during a windstorm, damaging property in the bailee's care. In this scenario, there would be coverage for the damaged property.

True **False**

Although the lead paint could be considered a pollutant, the windstorm, a specified peril, caused the loss, which restores coverage for the damage done.

8. Mechanical breakdown, temperature or humidity changes, and loss by artificially generated electrical currents are commonly excluded in bailee forms.

True **False**

Mechanical breakdown, temperature or humidity changes, and loss by artificially generated electrical currents are also commonly excluded in bailee forms, although coverage usually applies to resultant damage by certain specified perils.

9. Mark decides to steal a tractor from a repair shop. To do so, he visits the shop and claims he is there to retrieve "his" tractor but has lost the claim ticket. Mark fools the shop employee who hands over someone else's tractor. There is no coverage when the actual owner of the tractor makes a claim against the repair shop.

True **False**

Under the Voluntary Parting exclusion, there is no coverage for loss caused by or resulting from voluntary parting with title to or possession of any property because of any fraudulent scheme, trick, or false pretense.

10. Under a bailee policy, one of the options the insurer has with respect to how a claim will be settled is to take all or any part of the property at the agreed or appraised value.

True **False**

The insurer has the option as to how the claim will be settled and may choose to:

- pay the value of the lost or damaged property;
- pay the cost of repairing or replacing the lost or damaged property;
- rebuild, repair, or replace the property with other property of equivalent kind and quality, to the extent practicable, within a reasonable time; or
- take all or any part of the property at the agreed or appraised value.

Part 2

Builders Risk

Check-In



Directions: What are some reasons why builders risk is a better choice than property coverage for insuring a building under construction? Use features of the **Building And Personal Property Coverage Form (CP 00 10 10 12)** with **Causes Of Loss – Special Form (CP 10 30 09 17)** as the basis for your response.

Sample Answers:

Values at risk change throughout the construction process.

Exposure to certain causes of loss changes throughout the construction process.

Insurable interest changes throughout the construction process.

Many types of property are not covered under property forms. Examples include bridges, roadways, walks, patios, or other paved surfaces; excavations, grading, backfilling, or filling; foundation; underground pipes, flues, or drains; retaining walls that are not part of a building.

Many types of property are covered for low limits and/or limited perils. Examples include fences, landscaping materials, outside signs.

Property policies typically cover only the owner of the property, not all contractors involved in the project.

Property policies provide little coverage for property away from the described premises.

Earth movement and water damage/flood are excluded.

Collapse coverage is provided only for limited causes of loss.

There is no coverage for theft of unattached building materials.

Business income/extra expense coverage may not be adequate.

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Who Is the Insured?

Knowledge Check

Directions: Read the scenario below and explain your response.



Jennifer, your insured who is a property developer, doesn't understand the advantages of having numerous parties included as insureds on the builders risk policy she is about to purchase. After all, isn't this her building, and shouldn't the insurance be for her benefit only? How would you address her concerns?

Sample Answers:

There are several advantages to including numerous parties as insureds on a builders risk policy.

Jennifer's attorney may recommend use of a construction contract that requires that numerous parties be included as insureds. If Jennifer follows her attorney's advice, she will need to make sure the policy complies with the contract requirements.

The claims settlement process is more efficient and streamlined when there is one policy and one insurer responding after a loss. If each contractor carries insurance to cover its own property, there could be multiple insurers involved and disputes over what each should cover. This could delay the repair/rebuilding process.

Each insured party has direct rights under the policy.

Including numerous parties as insureds helps to avoid litigation and minimize subrogation.

What Does the Builders Risk Policy Cover?

Check-In



Directions: Answer the questions below based on **Builders' Risk Coverage – Scheduled Jobsite Form – Comprehensive Form (IM 7050 07 20).**

1. The policy only covers property that will become part of the finished project.

   True **False**

   The policy also covers Scaffolding, Construction Forms, Fencing, And Temporary Structures at the project site.

2. The jobsite limit of insurance also applies to property in transit on the way to the jobsite.

   True **False**

   The supplemental coverage, Transit, has a limit of $10,000. That limit can be increased by including a different limit of the schedule of coverages.

3. For the supplemental coverage, Temporary Storage Locations, to apply, property must be specifically allocated to or otherwise identified with covered "buildings or structures."

   True **False**

   The description in the supplemental coverage states that coverage does not apply unless this is the case.

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Check-In

Directions: Read the scenarios below and explain your response.



There is a fire at a construction site where a new big box store is being built. You are an adjuster in training and are working on your first big claim. You have established that all the damaged items are part of the jobsite as described on the schedule of coverages and must now determine what is covered property. The project is insured using an unendorsed **Builders' Risk Coverage – Scheduled Jobsite Form – Comprehensive Form (IM 7050 07 20),** and the following are damaged. Explain why coverage does or does not apply to each type of property.

1. Lumber that is stored on the jobsite and which was to have been used in the building project

   Covered; the definition of buildings or structures includes materials and supplies that will become a permanent part of the buildings or the structures.

2. Part of the foundation that was not fully cured when the fire happened

   Covered; the definition of buildings or structures includes foundations.

3. A contractor's forklift that was left in the parking lot overnight

   Not covered; machinery, tools and equipment that will not become a permanent part of the covered building or structure are not covered.

4. Scaffolding erected on the north side of the building

   Covered; scaffolding is included as covered property while at the jobsite.

5. A section of parking lot near the building

   Covered; roadways and walkways are covered property unless they are more than 1,000 feet from the covered building or structure.

Check-In



Directions: Read the scenario below and explain your response.

ABC Development, Inc., is constructing a new condominium building insured on **Builders' Risk Coverage – Scheduled Jobsite Form – Comprehensive Form (IM 7050 07 20).** The building under construction is seriously damaged in a hurricane, and the town orders ABC to demolish the building. In addition, since building codes have changed since the project started, ABC will need to rebuild with fire resistive construction rather than masonry non-combustible and include sprinklers that were not part of the original design. Explain how the builders risk ordinance or law coverages can help ABC.

Sample Answers:

Ordinance Or Law (Undamaged Parts Of A Building) will pay the value of the undamaged portion of the building ABC is forced to demolish.

Ordinance Or Law (Cost to Demolish And Clear Site) will pay the cost to demolish the undamaged portion of the building and to clear the site of the debris.

Ordinance Or Law (Increased Cost To Repair) will pay the additional costs to rebuild with better construction and sprinklers.

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Knowledge Check



Directions: Read the scenarios below and determine whether coverage applies under the builders risk coverage extensions or supplemental coverages. Explain your answers.



Your adjuster training at the big box store construction site fire is going well. You did such a great job figuring out what is covered property, your supervisor asks you to help determine whether coverage for the following applies under the builders risk coverage extensions and supplemental coverages. Recall that the project is insured using an unendorsed **Builders' Risk Coverage – Scheduled Jobsite Form – Comprehensive Form (IM 7050 07 20).**

1. After assessing the cost to remove the debris of damaged covered property from the site, it appears that:
    - $1,000,000 of the $5,000,000 limit will be paid for direct damage.
    - Debris removal costs are $200,000.

Sample Answer:

The coverage extension, Debris Removal, will pay the $200,000. Coverage applies with a sublimit equal to 25% of the amount paid for direct physical loss. $200,000 is less than this 25% cap ($1,000,000 x 25% = $250,000) If additional funds had been needed to remove debris, an additional $5,000 would have been available.

2. While most of the building was severely damaged in the fire, there is a 1,000 square foot section that was not damaged. The town ordinance, though, requires that this section of the building be demolished.
    - The value of the undamaged section is $250,000.
    - The cost to demolish the undamaged section and remove the debris is $25,000.

Sample Answer:

The supplemental coverage, Ordinance Or Law (Undamaged Parts Of A Building), will pay the $250,000 value of the undamaged portion of the building ABC is forced to demolish.

The supplemental coverage, Ordinance Or Law (Cost to Demolish And Clear Site), will pay the $25,000 cost to demolish the undamaged portion of the building and to clear the site of the debris. This coverage applies with a limit of $50,000, which is shared with the supplemental coverage, Ordinance Or Law (Increased Cost To Repair).

3. At some point in the reconstruction process, the insured will need to re-erect the scaffolding that wasn't damaged in the fire but which needs to be taken down. It will cost $4,000 to re-erect.

Sample Answer:

The supplemental coverage, Expense to Re-Erect Scaffolding, pays up to $5,000 to re-erect scaffolding after a covered loss to a building or structure.

Check-In



Directions: Explain why the following losses are or are NOT covered under the unendorsed **Builders' Risk Coverage – Scheduled Jobsite Form – Comprehensive Form (IM 7050 07 20).** Assume that the damaged property is covered property.

1. A power surge damages the circuitry in the newly installed elevators.

   Not covered; the Electrical Currents exclusion applies.

2. Copper pipes that were to have been installed the following day are stolen from the jobsite. Even though witnesses saw them flee, the thieves are never caught.

   Covered; there is no applicable exclusion.

3. It is discovered that a newly poured concrete slab is at the wrong angle, and the work needs to be redone.

   Not covered; the Defects, Errors, And Omissions exclusion applies.

4. The insured's jobsite is located downhill from a shopping mall with a large parking lot. After a large amount of rain fell within a two-day period, water runoff from the shopping mall damaged materials stored at the insured's jobsite.

   Not covered; the Flood exclusion applies.

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Knowledge Check

Directions: Read the following scenario and provide a response.

Carmen is having a new building constructed and doesn't understand the importance of including coverage for cold/operational/building start-up testing in the builders risk policy. How would you explain the importance of this coverage to Carmen?

Sample Answer:

Building systems can be damaged during the process of starting and testing them. Cold testing coverage varies among insurers but can include coverage for systems such as sprinkler systems, plumbing, piping systems, gas lines, air conditioning lines, elevators, or escalators.

Builders Risk Policy Coverage Term

Knowledge Check

Directions: Read the scenario below and explain your response.



Shoppers, Inc., is building a new strip mall on the edge of town and secures builders risk coverage for a one-year term using **Builders' Risk Coverage – Scheduled Jobsite Form – Comprehensive Form (IM 7050 07 20).** Ten months into the policy term, the first section of the building is complete, and a tenant is allowed to move in. Explain how Shoppers' coverage is affected by this occupancy, and how the problem could have been avoided.

Sample Answer:

Builders risk coverage ceases when buildings or structures are occupied in whole or in part or put to their intended use. A number of days could have been entered on the schedule of coverages to give permission to occupy, thereby providing coverage during this period of partial occupancy.

Valuation and Payment of Losses

Check-In



Directions: Identify several coverages for which a sublimit of coverage may apply.

Property Off-premises

Property in Transit

Flood

Earthquake

Temporary Works/Temporary Structures

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The Time Element Side of Builders Risk (Delay in Completion)

Knowledge Check

Directions: Read the scenario below and explain your response.



Your customer is about to start construction on a new office building that will be leased to others. Using coverage options from **Delay In Completion Coverage Part Includes Rental Income And Income Coverage (IM 7079 07 20),** what coverages would you recommend and why?

Sample Answers:

Rental Income: If the project is delayed due to damage by a covered cause of loss, the policy will pay for the loss of rental income incurred during the delay period.

Additional Construction Expenses: If the project is delayed due to damage by a covered cause of loss, the policy will pay the following additional costs: advertising expenses, design fees, financing costs, lease administration expenses, professional fees, permit fees.

Additional Soft Costs: If the project is delayed due to damage by a covered cause of loss, the policy will pay the following additional costs: interest payments, realty taxes, lease expenses, insurance premiums.

Sewer Backup: An additional covered cause of loss is added to the coverages selected.

Installation Floater

Knowledge Check



Directions: Read the scenario below and explain your response.

Henry's Hardwood installs hardwood floors. Approximately 50% of Henry's work is new construction where a builders risk policy may be in effect. The rest of Henry's work involves installing flooring in existing buildings. Explain to Henry why he may want to consider purchase of an installation floater.

Sample Answers:

For projects where there is no builders risk policy in effect, Henry needs an installation floater to cover materials at the jobsite, in transit, and in temporary storage. Henry's property policy provides only limited coverage once the materials leave his premises.

For projects where there is a builders risk policy in effect, Henry may be required by contract to cover materials before they arrive at the jobsite. Again, Henry's property policy provides only limited coverage once the materials leave his premises.

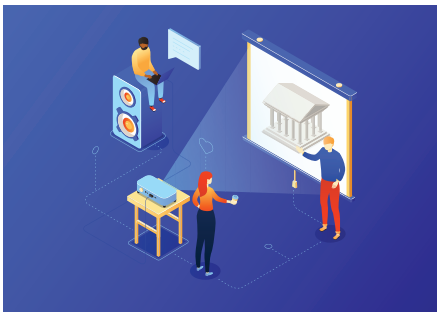
For projects where there is a builders risk policy in effect, Henry may be concerned that he is not properly protected by the builders risk. He was not involved in negotiating the terms of the builders risk policy, and he may not trust that the policy adequately protects his interests.

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Installation Floater – The Policy Coverage

Knowledge Check

Directions: Read the scenarios below and explain your responses.



Amazing AV Systems installs large audiovisual systems in office buildings, conference rooms, and sports arenas. Amazing wants to better understand the coverage provided under its unendorsed **Installation Floater Coverage (IM 7100 08 10)** and asks whether the following are covered. How will you respond?

1. Amazing hires a helicopter to place a large screen on the top of a 10-story building. Is the screen covered while it is being lifted into place?

   No—airborne property, except while in transit on a regularly scheduled airline flight, is not covered property.

2. Some of Amazing's customers purchase their own TV screens to be used in their projects. Amazing installs them along with the rest of the equipment supplied by Amazing. Are these TV screens covered property during the installation process?

   Yes—covered property includes property of others in the care, custody, or control of Amazing that Amazing is installing as part of an installation project.

3. Amazing brings a forklift to installation sites to move property. Is the forklift covered?

   No—machinery, tools, or equipment that will not become a permanent part of the project is not covered property.

Knowledge Check



Directions: Read the scenario below and explain your response.

Carter's Custom Woodwork wants to better understand the coverage under its newly purchased **Installation Floater Coverage (IM 7100 08 10)** form. Carter understands that coverage applies to property being installed while it is at the jobsite, but questions if there is coverage away from the jobsite. How will you respond?

Sample Answer:

The supplemental coverage, Transit, provides up to $5,000 coverage for materials in transit. There is also a supplemental coverage, Temporary Storage Locations, which provides up to $5,000 coverage for property temporarily stored away from the jobsite. Either limit can be increased if needed.

When Does Coverage End?

Knowledge Check



Directions: Explain why coverage under **Installation Floater Coverage (IM 7100 08 10)** does or does not apply in the following scenario.

Michael's Millwork was hired to install a new staircase in a customer's home. The customer paid the deposit, and the staircase was delivered to the jobsite. The customer's second check to Michael bounced before the installation began. Michael cancelled the contract and decided to leave the staircase there since it would be difficult to remove it under the circumstances. One month later, a fire in the home damaged the staircase.

Sample Answer:

Coverage under an installation floater ends when the first of several events happens. One of these coverage-ending triggers is when the named insured abandons the installation project with no intent to complete it.

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Endorsements and Additional Coverage Forms

Check-In



Directions: Fill in the blanks uses the options below.

flood	earthquake	mysterious disappearance	employee theft	contract penalties
Additional Installation Expenses coverage	**Additional Soft Costs coverage**	**hot testing**	**cold testing**	**commissioning**

1. Commissioning means the operation of equipment or machinery with feedstock or other materials for processing under production conditions for the purposes of attaining specification requirements or for training operational personnel.

2. Contractors who cannot complete a project on time often face contract penalties for noncompliance with the contract provisions.

3. Cold testing means the checking of the component parts of equipment or machinery by mechanical, electrical, hydrostatic, or other forms of testing under dry run conditions.

4. Additional Installation Expenses coverage includes design fees, financing, lease administration, professional fees and permit fees.

5. Hot testing means the checking of the component parts of equipment or machinery under load or operational conditions.

6. Additional Soft Costs coverage includes interest payments, realty taxes, lease expenses and insurance premiums.

7. Coverage for earthquake and/or flood as covered causes of loss can often be added. Separate limits and/or deductibles often apply to loss by these added perils.

Section 1, Part 2, Self-Quiz

Directions: Read the statements below and for each one, determine whether it is true or false.

1. General contractors, subcontractors, and project owners/developers are all parties that may need to be included as insureds on a builders risk policy.

True **False**

Some parties that may need to be included as insureds are:

- Project owner/developer
- General contractor
- Subcontractors of every tier*

*This phrase is intended to include subcontractors, sub-subcontractors, etc. In most builders risk policies, this general phrase can be used instead of listing each contractor by name.

- Construction manager
- Architects and engineers
- Materials suppliers
- Mortgagees and lenders

2. An advantage to including numerous parties as insureds on a builders risk policy is that it helps to avoid litigation and limit subrogation.

True **False**

One of the most important reasons to include numerous parties as insureds is to avoid litigation and to limit subrogation. It is not uncommon for there to be damage to a project because of something a contractor has done wrong.

3. Builders risk policies cover three separate types of property: property that will become a permanent part of the described project, scaffolding and other temporary structures, and equipment that contractors use during the construction process.

True **False**

Builders risk policies cover two separate types of property:

- property that will become a permanent part of the described project, and
- other property that will not, such as scaffolding and other temporary works.

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4. A group of teenagers on four-wheelers destroys a freshly graded site; this act of vandalism is covered under builders risk.

True **False**

This vandalism is covered under builders risk because the definition of buildings or structures includes excavations, grading, and filling. Vandalism is also a covered cause of loss.

5. If a covered peril damages covered property, the insured may incur additional expenses to get the project back on track so it can be finished by the original completion date in the contract. This is an example of Ordinance Or Law under a builders risk policy.

True **False**

If a covered peril damages covered property, the insured may incur additional expenses to get the project back on track so it can be finished by the original completion date in the contract. This is an example of Expediting Expenses.

6. With Group 1 Exclusions, if the loss involves any of the listed excluded perils, the entire loss is excluded, even if a covered peril contributes to the loss.

True **False**

The first group of exclusions is prefaced with strong language, often referred to as anti-concurrent causation language. If the loss involves, in any way, one of these excluded perils, the entire loss is excluded. The only exception is an occasional give-back for resultant damage by certain causes of loss.

Directions: Read the following multiple-choice questions and select the correct response for each one.

7. In a builders risk policy, coverage ends when one of the coverage-ending triggers occurs. Which of the following does NOT end coverage?

- ☐ The policy expires or is cancelled.
- ☐ The named insured abandons construction with no intent to complete it.
- ☑ Covered buildings or structures have been completed for more than 30 days.

When Coverage Ceases—Coverage will end when one of the following first occurs:

a. this policy expires or is cancelled;
b. covered buildings or structures are accepted by the purchaser;
c. the named insured's insurable interest in the covered property ceases;
d. the named insured abandons construction with no intent to complete it; or
e. covered buildings or structures have been completed for more than 90 days.

8. When it comes to rental income and income coverages, if a project is delayed due to damage by a covered cause of loss, a waiting period:

   ☑ typically applies and is shown on the **Delay in Completion Schedule (IM 7080 07 20).**

   ☐ does not apply; immediate reimbursement is provided.

   ☐ typically applies and is shown on the **Installation Floater Coverage (IM 7100 08 10).**

   A waiting period typically applies and is shown on the Delay in Completion Schedule (IM 7080 07 20).

9. Trade contractors may purchase installation floaters because they:

   ☐ are required to insure items they have been hired to repair.

   ☑ typically have no input into the choice of builders risk policy limits and coverage features which might result in responsibility for a builders risk deductible higher than they can afford to carry.

   ☐ want to insure their inventory stored at their own premises.

   The insurable interest of trade contractors is often covered under builders risk policies written to cover the projects on which they work. These contractors, however, are not typically involved in the purchase of builders risk and may not be adequately covered. Trade contractors, for example, have no input into the choice of policy limits and coverage features and may find that they are responsible for a builders risk deductible much higher than they can afford to carry.

10. **Installation Floater Coverage (IM 7100 08 10)** covers property at a jobsite that the named insured is:

    ☐ installing or rigging

    ☐ installing, rigging, and later destructing

    ☐ constructing or rigging

    ☑ installing, constructing, or rigging

    Installation Floater Coverage (IM 7100 08 10) covers property at a jobsite the named insured is installing, constructing, or rigging. Such operations must be part of an installation project. Both installation project and jobsite are defined terms in the policy.

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11. Each of the following is an example of property not covered under an installation floater, EXCEPT:

- [x] machinery to be installed at the named insured's jobsite
- [ ] airborne property
- [ ] trees, shrubs, and plants
- [ ] contraband at the named insured's jobsite

The Property Not Covered section of this installation floater removes from coverage some of the same types of property that are excluded under builders risk. Contraband, airborne property, and trees, shrubs, and plants are not covered property under an installation floater.

12. Identify one of the possible reasons that installation floater coverage might end before the policy term expires.

- [ ] The project has been occupied in whole or in part.
- [ ] The project has been completed for fourteen days.
- [x] The named insured abandons the installation project with no intent to complete it.
- [ ] Roofs and walls are put to their intended purpose.

The possible reasons installation floater coverage might end before the policy term expires are:

1. The covered "installation project" is accepted by the purchaser.
2. "Your" insurable interest in the covered property ceases.
3. "You" abandon the "installation project" with no intent to complete it.
4. The "installation project" has been completed for more than 30 days.
5. The covered property has been put to its intended use; however, this does not apply to roofs or walls.

Part 3

Contractors Equipment Coverage

Check-In



Directions: Read the statements below and for each one, determine whether it is true or false.

1. A forklift used only on the insured's premises can be covered on a commercial property policy, like ISO **Building And Personal Property Coverage Form (CP 00 10 10 12)**.

   True **False**

   CP 00 10 10 12 excludes vehicles and self-propelled machines only when the item is licensed for use on public roads or when the item is operated principally away from the described premises.

2. **Causes Of Loss – Special Form (CP 10 30 09 17)** covers a contractor's tools stolen from a jobsite, making contractors equipment coverage unnecessary to cover this exposure.

   True **False**

   Under CP 10 30 09 17, builders' machinery, tools, and equipment away from the insured's premises are only covered for damage by specified causes of loss and building glass breakage. Theft is not a specified cause of loss.

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The Contractors Equipment Policy

Check-In

Directions: Read the statements below and for each one, determine whether it is true or false.

1. A contractors equipment policy must include a list of the items covered under the policy.

True **False**

A scheduled policy may state "schedule on file," or coverage may be written on a blanket basis.

2. Contractors equipment policies may be written with a catastrophe limit that is less than sum of the values of covered equipment

True **False**

This approach may be taken if an insurer wants to limit exposure or if the insured is looking for a better rate.

Knowledge Check

Directions: Read the scenario below and explain your response.



You are meeting with a prospective client, a site development contractor. The client's company does occasional construction of pre-cast concrete bridges and puts equipment on a barge for part of the operation. Your client asks whether the unendorsed **Contractors' Equipment Coverage (IM 7000 04 04)** policy you are proposing will cover the barge and the equipment on the barge. How will you respond? Explain why coverage will or will not apply.

Sample Answer:

The barge is not covered; it is watercraft, which is not covered property. The equipment on the barge is not covered; it is waterborne property, which is also not covered property.

Check-In

Directions: Explain whether coverage under **Contractors' Equipment Coverage (IM 7000 04 04)** applies in the following situations.



1. Lola's Landscaping bought a new lawnmower for $5,000 and forgot to notify the contractors equipment insurer. Four months after the item was purchased, it was stolen.

Sample Answer:

There is no coverage. Although Newly Purchased Property is an included supplemental coverage, coverage applies only for 60 days.

2. One of Lola's employees has tools that are used in Lola's business. The tools are stolen from the employee's garage.

Sample Answer:

There is no coverage. Although Employee Tools coverage is an included supplemental coverage, coverage only applies at the named insured's premises or the jobsite.

3. Lola rented a weed wacker for one week since hers is in the shop for repair. It was stolen along with the lawn mower.

Sample Answer:

There is up to $25,000 coverage under the supplemental coverage, Equipment Leased Or Rented From Others.

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Check-In



Directions: Read the scenario below and explain your responses.

You are working with a new client who has had several equipment losses over the past five years, only some of which were paid by the insurer. Your client asks whether the following would be covered under the unendorsed **Contractors' Equipment Coverage (IM 7000 04 04)** you are proposing.

1. The insured's employee steals a front-end loader that was left on a jobsite.

   Not covered; the Criminal, Fraudulent, Dishonest, Or Illegal Acts exclusion applies.

2. A piece of equipment is being transported to a remote jobsite when a flash flood hits, causing extensive damage to the item.

   Covered; the Contractors' Equipment Coverage (IM 7000 04 04) does not have a flood exclusion.

Knowledge Check



Directions: Read the scenario below and explain your response.

Your insured recently purchased a crane and wants to add it to the contractors equipment schedule. Applying your knowledge of contractors equipment exclusions, describe which exclusions are especially problematic for those with cranes.

Sample Answer:

A Weight Of Load exclusion removes coverage when the weight of the load being lifted by the crane exceeds the capacity the equipment is designed to lift. Various types of boom exclusions can be used to remove coverage when the crane's boom is damaged.

Valuation and Payment of Losses

Check-In



Directions: Which valuation method would you recommend for the following equipment items?

1. The insured wants to buy only new equipment and typically trades in equipment after it is only a few years old.

   Replacement cost coverage: The value of covered property will be based on the replacement cost without any deduction for depreciation.

2. The insured often builds the equipment used or makes significant modifications to purchased equipment.

   Agreed amount: The value will be determined at the time the policy is written and indicated on the endorsement.

3. The insured likes to buy used equipment at auctions where a good deal can always be found.

   Actual cash value: The value of covered property will be based on the actual cash value at the time of the loss (with a deduction for depreciation).

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Knowledge Check

Directions: Read the scenario below and answer the questions.



Tiffany's backhoe is damaged by a covered cause of loss. Coverage is written on **Contractors' Equipment Coverage (IM 7000 04 04)** with ACV valuation and a 2% deductible. There is no coinsurance percentage on the Schedule of Coverages so coinsurance does not apply. The backhoe has an ACV of $110,000, but the limit of insurance on the backhoe is only $100,000. The cost to repair the damage to the backhoe is $20,000.

Answer the following questions for Tiffany:

1. What does ACV mean?

   Actual cash value – The value of covered property will be based on the actual cash value at the time of the loss (with a deduction for depreciation).

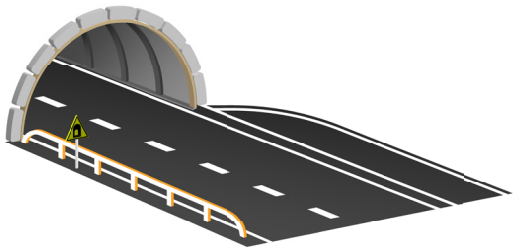
2. What deductible will apply?

   $2,200 – The deductible is 2% of the value of the covered property.
   $110,000 x 2% = $2,200

The Time Element Side of Contractors Equipment

Knowledge Check

Directions: Read the scenario below and explain your response.



Your insured won the bid to construct a new traffic tunnel. Collaborating with a great underwriter, you were able to amend policy language to cover the tunnel boring machine as contractors equipment. After having performed well for several months, the machine was damaged when it hit a steel pipe that no one realized was there. It took two months to repair the machine and resume operations. It was not possible to use a replacement piece of equipment to get the project back on track.

How might **Contractors' Equipment Income Coverage (IM 7027 04 04)** help?

Sample Answer:

This endorsement covers the actual loss of net income (net profit or loss before income taxes) that would have been earned or incurred, plus continuing operating expenses normally incurred, including payroll expense.

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Section 1, Part 3, Self-Quiz

Directions: Read the statements below and for each one, determine whether it is true or false.

1. The **Schedule Of Coverages (IM 7005 01 12)** is attached to the contractors equipment policy to describe the covered property, policy limits, deductible, and coverage features.

True **False**

The Schedule of Coverages (IM 7005 01 12) is attached to the contractors equipment policy to describe the covered property, policy limits, deductible, and other coverage features.

2. Self-propelled vehicles designed and used primarily to carry mounted equipment are NOT considered contractors equipment under **Contractors' Equipment Coverage (IM 7000 04 04).**

True **False**

Self-propelled vehicles designed and used primarily to carry mounted equipment are contractors' equipment under this policy. Also included are vehicles designed for highway use that are unlicensed and not operated on public roads. Not all forms, though, include this type of equipment as contractors' equipment. In fact, another AAIS option, Contractors' Equipment Coverage – Scheduled Equipment Form (IM 7001 04 04), specifically excludes this type of equipment. It is important to carefully review the language in any policy being considered to be sure it meets the insured's needs.

3. In a contractors equipment policy, property that the named insured leases or rents to others is covered.

True **False**

Property that the named insured leases, rents, or loans to others is not covered. This restriction is especially important for the insured to understand because the insured has paid premium to insure the equipment item and assumes coverage is in effect. It is common for contractors to share or rent their equipment, and when that happens, coverage for the item ends.

4. **Contractors' Equipment Coverage (IM 7000 04 04)** includes up to $5,000 coverage per occurrence for employees' tools on the named insured's premises or a jobsite.

True **False**

Contractors' Equipment Coverage (IM 7000 04 04) includes up to $5,000 coverage per occurrence for employees' tools on the named insured's premises or a jobsite. Higher limits can be shown on the schedule of coverages.

5. A Weight Of Load Exclusion applies when the weight of the load, under the operating conditions at the time of loss, exceeds the capacity that the equipment is designed to lift.

True **False**

A Weight Of Load exclusion is sometimes used by insurers who want to eliminate coverage for this exposure. The exclusion applies when the weight of the load, under the operating conditions at the time of a loss, exceeds the capacity that the equipment is designed to lift.

6. In **Contractors' Equipment Income Coverage (IM 7027 04 04),** "restoration period" is the time it should reasonably take to resume the insured's business to a similar level after physical loss of or damage to covered contractors' equipment that is caused by a covered peril. Income coverage applies for a maximum of thirty days.

True **False**

"Restoration period" means: the time it should reasonably take to resume "your" "business" to a similar level, starting from the date of a physical loss of or damage to covered "contractors' equipment" that is caused by a covered peril, and ending on the date the property should be repaired or replaced.

This is not limited by the expiration date of the policy, and there is no maximum number of days that income coverage applies.

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Directions: Read the statements below and fill in the blank with the appropriate word(s) from the word bank.

actual cash value	replacement cost	lost or damaged part	pair or set	coinsurance

7. Many contractors equipment policies have coinsurance conditions that require insureds to carry an appropriate limit of insurance and which, at the time of a loss, penalize those that do not.

8. The value of covered property will be based on the replacement cost without any deduction for depreciation unless Actual Cash Value is indicated on the schedule of coverages.

9. The value of a lost or damaged article which is part of a group is based on a reasonable proportion of the value of the entire pair or set.

10. The value of a lost or damaged part of an item that consists of several parts when it is complete is based on the value of only the lost or damaged part or the cost to repair or replace it.

11. Actual cash value valuation includes a deduction for depreciation.

Part 4

Types of Carriers and the Liability of Each

Check-In



Directions: For which one of the following would a common carrier be legally liable?

- ☐ The ATF confiscates the cargo in a FedEx truck, believing that illegal firearms are being shipped.
- ☐ The cargo in a UPS truck is damaged in an earthquake.
- ☑ Cargo in the truck of a common carrier is damaged in an auto accident.
- ☐ A shipper of glassware did not pack the goods properly before shipment, and the glassware is broken when it arrives.

Common carriers are not liable for acts of public enemy, acts of God/nature, or acts or default of the shipper.

Knowledge Check



Directions: Read the scenario below and respond to the question.

Sharon from Sharon's Shirt Company doesn't understand why the contract carrier she uses to transport her goods wouldn't be responsible to pay for the value of the shirts if the shirts are damaged in transit. How would you explain this to Sharon?

Sample Answer:

The liability of a contract carrier is established in the contract between the parties. The contract carrier may not be liable under the contract for certain types of losses. Also, if the goods are shipped under a released bill of lading, the contract carrier may not be liable for the full value of the cargo, even in situations where it is legally liable for the damage.

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Why Purchase Transportation Coverage?

Knowledge Check



Directions: Read the scenario below and explain your response.

Your client manufactures cell phone accessories and ships them using common and contract carriers. Your client asks you why a transportation policy should be purchased. Walk through how you would advise your client.

Sample Answers:

There is limited coverage under most property policies for property in transit.

Carriers are not responsible for all losses, and the carrier may not be responsible for the full value of the cargo.

First-party claims are usually settled more promptly than liability claims.

The insured can buy the broad coverage needed to coverage its exposures.

Purchasing transportation coverage is cost-effective when compared to the cost of purchasing additional coverage from the carrier.

The Transportation Policy

Check-In



Directions: Read the scenario below and explain your response.

Lorelei's Lumberyard has a transportation policy with the following limits:

Owned Vehicle – $500,000

Carrier for Hire – $500,000

Catastrophe Limit – $1,000,000

Building materials are being delivered to a construction project. Two of Lorelei's trucks are carrying $400,000 of material each. Two contract carriers are carrying $300,000 each. A tornado strikes while the four vehicles are in transit, and all the materials are destroyed. How much will be paid?

Only $1,000,000 will be paid as this is the catastrophe limit, the most that will be paid for any one occurrence.

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Check-In



Directions: For each of the questions following based on the unendorsed **Transportation Coverage (IM 7250 04 04),** select the best answer**.** Assume that limits apply for all modes of transportation and that the description of covered property on the schedule of coverages is broad enough.

1. Which of the following, in the due course of transit, is NOT covered property?

- ☐ Computers the insured ships via Federal Express
- ☑ Computers the insured ships via the U.S. Postal Service
- ☐ Computers the insured ships via a contract carrier
- ☐ Computers the insured ships via railroad

The policy does not cover mail shipments in the custody of the U.S. Postal Service.

2. Which of the following, in the due course of transit, is covered property?

- ☐ Gold earrings the insured has crafted and shipped to a jewelry store via Federal Express
- ☐ Electronics the insured backhauls after having delivered a truck full of its own products to a distribution center
- ☑ Electronics the insured has manufactured that are being shipped to a distribution center via contract carrier
- ☐ Raw materials the insured is importing while on an aircraft

Jewelry, property the insured is responsible for as a carrier for hire, and imports while on an air conveyance are not covered property.

Check-In



Directions: Read the scenario below and explain your response.

The insured is transporting liquid chocolate in an owned tanker truck. The truck overturns, and the tank ruptures. Chocolate must be removed from the roadway. In addition, some of the chocolate has entered a nearby stream and is considered a pollutant in this jurisdiction. How might the coverage extensions and supplemental coverages in **Transportation Coverage (IM 7250 04 04)** help the insured?

Sample Answer:

The coverage extension, Debris Removal, will pay to remove the debris from the roadway. Coverage applies with a sublimit equal to 25% of the amount paid for direct physical loss. If additional money is needed to cover debris removal costs, the policy pays up to an additional $5,000.

The supplemental coverage, Pollutant Cleanup And Removal, provides a $10,000 annual aggregate limit that can be used to extract pollutants from the stream and for any testing necessary for the extraction.

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Check-In



Directions: Read the scenario below and respond to statements that follow.

Ichabod's Ice Cream ships ice cream to various states using a variety of conveyances: aircraft, railroad car, owned vehicles, and contract carriers. Coverage is written using **Transportation Coverage (IM 7250 04 04)** with the **Refrigerated Equipment Breakdown Endorsement (IM 7275 01 12),** and adequate limits of insurance apply to each of the four modes of transportation.

Does coverage apply to the following losses?

1. Ichabod ships ice cream on his own refrigerated truck. The last time he inspected the refrigeration unit was three months before the refrigeration unit broke down. $200,000 of product melted.

   Yes **No**

   No—the policy does not cover loss if the insured does not inspect the vehicle's refrigeration unit at least once each month.

2. Ichabod ships ice cream via railroad to another state. The refrigeration unit on the railroad car breaks down, and the $300,000 of product melted.

   Yes **No**

   Yes—the policy has a limit for transportation by railroad, and the refrigeration breakdown endorsement applies to loss to property shipped via railroad.

3. Ichabod hires a contract carrier to ship product via truck. The truck's refrigeration unit breaks down, and $200,000 of product melted.

   Yes **No**

   No—the Refrigerated Equipment Breakdown Endorsement only covers property in aircraft, railroad cars, or owned vehicles.

Knowledge Check



Directions: Read the scenario below and explain your responses.

Natalie of Natalie's Naturals, a manufacturer of nutritional supplements, is trying to understand how coverage under her unendorsed **Transportation Coverage (IM 7250 0404)** applies. She only ships goods in her own trucks. She has asked whether the following hypothetical losses would be covered. How do you respond?

1. Natalie's driver, an employee, steals several cases of protein powder from a truck that is delivering product to local stores.

   No coverage; the Criminal, Fraudulent, Dishonest, Or Illegal Acts exclusion applies.

2. Natalie is about to start manufacturing and shipping a new line of pre-made shakes that must be refrigerated. What if the refrigeration unit in the truck breaks down and the product spoils before it can be delivered?

   No coverage; the Spoilage exclusion applies. (You make a note to yourself to add the Refrigeration Breakdown Endorsement to the policy.)

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Section 1, Part 4, Self-Quiz

Directions: Match the term with the correct definition.

A. Contract carriers **B.** Private carriers **C.** Public authority **D.** Common carriers **E.** Acts of God/nature	___D.___ Provide transportation for hire to the public and are strictly liable for the goods they are transporting unless they can prove that they were not negligent and that one of five exceptions applies
	___B.___ Transport their own property on their own vehicles; liability to others for damage to cargo is a non-issue
	___A.___ Paid to deliver goods for specific shippers; liability is established in the agreement between the parties rather than under law as with a common carrier
	___E.___ The exception to common carrier liability that refers to physical perils beyond the control of the carrier such as floods, earthquake, and storms
	___C.___ The exception to common carrier liability that applies when action of a governmental entity is the reason the cargo is damaged

Directions: Read the statements below and for each one, determine whether it is true or false.

1. One of the benefits of purchasing a transportation policy is that it is more cost-effective for most insureds than purchasing additional coverage from the carrier.

True **False**

Purchasing a transportation policy is more cost-effective for most insureds than purchasing additional coverage from the carrier.

2. Claims made under first-party coverage, such as a transportation policy, are usually settled more quickly than third-party claims made against a carrier.

True **False**

Claims made under first-party coverage like a transportation policy are usually settled more quickly than third-party claims made against a carrier. With first-party coverage, there is no need to prove the liability of the carrier. If a subrogation action against the carrier is warranted, it will be handled by the transportation insurer after payment of the claim.

3. An insured purchasing a transportation policy can typically only arrange for limited coverage with limits and terms that many not properly address the exposure.

True **False**

An insured purchasing a transportation policy is typically able to arrange for broad coverage with limits and terms that are appropriate for the exposure.

4. Property in a terminal and property in transit are two basic types of property that can be covered under **Transportation Coverage (IM 7250 04 04).**

True **False**

Transportation policies typically begin with a broad description of covered property and then narrow coverage with a listing of property not covered. **Transportation Coverage (IM 7250 04 04)** allows two basic types of property to be covered—property in a terminal and property in transit. In either case, property is only covered while in transit.

5. Jewelry, contraband, property in storage, and sales representative samples are all examples of property COVERED under **Transportation Coverage (IM 7250 04 04).**

True **False**

There are eleven categories of property that are not covered; jewelry, contraband, property in storage, and sales representative samples are examples of property NOT covered under **Transportation Coverage (IM 7250 04 04).**

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6. Debris Removal and Property You Have Sold are two coverage extensions included in **Transportation Coverage (IM 7250 04 04)**.

True **False**

Transportation Coverage (IM 7250 04 04) includes two coverage extensions that are much like extensions discussed in the other policies studied here. The extensions are Debris Removal and Emergency Removal. Property You Have Sold is a supplemental coverage.

7. $10,000 is the annual aggregate limit for Pollutant Cleanup And Removal in **Transportation Coverage (IM 7250 04 04).**

True **False**

This policy includes a $10,000 annual aggregate limit for Pollutant Cleanup And Removal, although a higher limit can be shown on the schedule of coverages. Coverage applies to expenses to extract pollutants from land or water after a covered peril occurs and for any testing necessary for the extraction.

8. Property preserved and maintained under controlled conditions and susceptible to loss or damage if the controlled conditions change refers to "perishable stock."

True **False**

"Perishable stock" means property preserved and maintained under controlled conditions and susceptible to loss or damage if the controlled conditions change.

9. **Refrigeration Breakdown Endorsement (IM 7275 01 12)** imposes no additional responsibilities on the insured, prior to the loss, with respect to owned vehicles.

True **False**

For coverage under the endorsement to apply, the insured must maintain adequate fuel levels for the refrigeration or heating unit. The insured must inspect a vehicle's refrigeration or heating unit at least once each month. The insured must maintain a record of each inspection of a refrigeration or heating unit and must retain the records for at least one year.

10. Under **Transportation Coverage (IM 7250 04 04),** if there is an invoice, the valuation is based on the invoice amount plus accrued costs, pre-paid charges, and charges since the shipment.

True **False**

How losses are valued under **Transportation Coverage (IM 7250 04 04)** depends on whether there is an invoice. If there is an invoice, the valuation is based on the invoice amount plus accrued costs, pre-paid charges, and charges since the shipment. In the absence of an invoice, the property will be valued at actual cash value.

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Section 2: Employment Practices Liability Insurance

The Need for Employment Practices Liability Insurance

Knowledge Check

Directions: Read the following scenario and explain your thinking.



Gillian's Gym is a small company employing only three people. Gillian knows that her company is too small to be subject to many of the federal employment statutes, so she decides to forego purchase of an EPLI policy. Explain to Gillian why her logic is flawed.

Claims can still be made under state or local statutes that might apply to smaller employers. In addition, claims can be made for various workplace torts and breach of express or implied contracts.

The EPLI Insuring Agreement

Check-In



Directions: Complete each sentence with the appropriate word or phrase.

actual termination	wrongful termination	defend	constructive termination	negligent retention
quid pro quo	retaliation	discrimination	indemnify	hostile environment

1. Two promises made by the insurer in the ISO EPLI policy are the promise to pay sums the insured becomes legally obligated to pay and the promise to defend the insured against a suit seeking those damages.

2. Quid pro quo sexual harassment occurs when submission to or rejection of unwelcome sexual conduct by an individual is used as the basis for employment decisions affecting such individual.

3. Hostile environment sexual harassment is when unwelcome sexual conduct unreasonably interferes with an individual's job performance or creates an intimidating, hostile, or offensive working environment.

4. Actual termination is when employment is involuntarily terminated.

5. Constructive termination is when an employer makes the working conditions unbearable so the employee resigns.

6. Retaliation occurs when an employer fires an employee or takes any other type of adverse action against an employee for engaging in protected activity.

7. Four wrongful acts covered in nearly all EPLI policies are discrimination, wrongful termination, sexual harassment, and retaliation.

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Knowledge Check

Directions: Read the following and respond.

Many businesses use independent contractors. Explain some of the approaches insurers take with respect to coverage for independent contractors.

Coverage for independent contractors varies widely among insurers. Some insurers do not include independent contractors as insureds. Some policies cover them if the named insured has agreed to indemnify the independent contractor or if the independent contractor is treated under law as an employee. Some insurers require an endorsement to cover independent contractors.

Third-Party Liability Coverage

Knowledge Check

Directions: Read the following scenarios and explain your thinking.

Which of the following scenarios is most likely to be covered under third-party liability? In both cases, assume that the incident is a covered wrongful act under the policy.

Scenario 1



Todd is a server at an upscale restaurant where a regular customer has made inappropriate sexual advances toward him on several occasions. Todd reported the behavior to his manager who insisted that Todd continue to serve this customer and just try to ignore the situation. Todd files a suit against his employer for failing to provide a safe workplace.

Scenario 2

Todd is a server at an upscale restaurant. A regular customer has filed a lawsuit against Todd and the restaurant claiming that Todd made inappropriate sexual advances on a number of occasions.

Scenario 2 is a third-party liability situation. The claim for sexual harassment is being made against the insured (the restaurant and employee) by a customer of the restaurant—a third party. Scenario 1 is covered under employment practices liability

coverage. In that scenario, an employee is making a claim against the employer for what we assume is a covered wrongful act.

EPLI Exclusions

Knowledge Check



Directions: Explain whether the following claims are likely to be covered or excluded under an EPLI policy and explain your answers.

1. Subcontractor LLC enters into a contract with General Contractor LLC and agrees to indemnify General Contractor LLC for any and all damages. Jamie, an employee of another contracting firm working on the jobsite alleges that an employee of Subcontractor LLC sexually harassed her. Jamie also names General Contractor LLC in the lawsuit, alleging that General Contractor LLC did not exercise the proper control over its subcontractors. General Contractor LLC demands indemnification from Subcontractor LLC.

   Coverage will not apply under most EPLI policies because of the contractual liability exclusion. If it is determined that Subcontractor LLC is liable in the absence of the contract or agreement, an exception to the exclusion may restore coverage.

2. Martina and several of her co-workers file claims against their employer. They allege that they should have been paid overtime for the past four months and were not. The named insured employer claims that they are exempt employees and are not entitled to overtime.

   Coverage will not apply under most EPLI policies because of exclusions for FLSA and other wage and hour violations. Many insurers add some coverage by endorsement, although coverage is typically for defense costs only.

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Knowledge Check (continued)



3. Cary is an insurance salesperson with a written employment contract that states he cannot be fired without cause. Cary is involuntarily terminated after he did not meet his production goals. Cary claims there are extenuating circumstances and that, under these circumstances, he cannot be fired. He files a claim for breach of the employment contract.

   Coverage may apply under an EPLI policy, although some policies have an exclusion for breach of an express employment contract. Even if claims involving breach of an express employment contract are excluded, some forms will provide coverage for defense of such claims.

4. Sandra files suit against her employer, ABC Accounting Firm, and one of its officers, Charles. The suit alleges sexual harassment by Charles. Sandra also reports Charles's conduct to the police, and Charles is charged with sexual assault.

   The criminal, fraudulent, or malicious acts exclusion could eliminate coverage for Charles if he is found guilty of sexual assault. Most EPLI forms will defend Charles until he is found guilty. Coverage for ABC Accounting Firm applies since it is not charged with a criminal, fraudulent, or malicious act.

EPLI Defense Provisions

Check-In



Directions: Determine how much will be paid by an EPLI policy in each of the following scenarios. Disregard any deductible or retention.

1. Policy A: $1,000,000 aggregate limit with defense inside the limit

   The insured's first claim of the year is settled with final costs as follows:

   - $800,000 judgment
   - $300,000 defense costs

   $1,000,0000 will be paid. Defense costs are part of the limit of insurance.

2. Policy B: $1,000,000 aggregate limit with defense outside the limit

   The insured's first claim of the year is settled with final costs as follows:

   - $800,000 judgment
   - $300,000 defense costs

   $1,100,000 will be paid. Defense costs are paid in addition to the limit of insurance.

Knowledge Check



Directions: Read the following scenario and respond.

Your insured is concerned that an EPLI insurer might settle claims too freely, damaging the reputation of the insured. Explain how the insuring agreement and consent to settle clause address this issue.

An EPLI insurer must typically obtain the consent of the insured before settling a claim. If the insured refuses to consent to a settlement that is acceptable to the claimant, though, the insured will be responsible for all or part of any additional amounts ultimately paid to defend and settle the claim.

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Limit of Insurance

Knowledge Check



Directions: Read the following scenario and explain your thinking.



A new insured has just purchased its first EPLI policy. Explain to your insured the obligations under most policies in respect to the reporting of claims.

Claims must be reported to the insurer as soon as practicable. Many forms require that the claim be reported during the policy term or within a short period of time after. Failure to report claims as required by the policy could result in no coverage applying to the claim.

Section 2 Self-Quiz

Directions: Read the statements below and for each one, determine whether it is true or false.

1. Most EPLI policies are written on a right and duty to defend basis.

True **False**

Although some EPLI policies allow the insured to control the defense of a claim, most do not. The insurer typically has the right and duty to defend an insured against a suit seeking damages in a covered claim.

2. If coverage is written on a non-duty to defend form, the insured has complete freedom to choose its own counsel and to settle claims.

True **False**

Even in a non-duty to defend form, the insurer typically has some control over the choice of counsel and must consent to any settlement.

3. EPLI policies always pay defense costs with the limit of liability.

True **False**

Most EPLI policies pay defense costs within the limit of liability. Some, though, pay defense costs in addition to the limit. Some insurers that pay defense in addition to the limit cap the defense costs at a specified amount.

4. An EPLI policy using ISO language is written with a $50,000 deductible. There are $40,000 in incurred defense costs before the claim is dismissed. The insured is not responsible for paying anything.

True **False**

Defense costs under an EPLI policy are subject to the deductible. The insured is responsible for paying the $40,000.

5. The limit of insurance on an EPLI policy is usually an annual aggregate limit.

True **False**

The limit of insurance on an EPLI policy is usually an annual aggregate limit, and it is the most that will be paid regardless of the number of insureds, claims made, or persons or entities making claims.

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Directions: Read the following multiple-choice questions and select the correct response for each.

6. There are three primary sources of employment-related claims. They are:

- ☐ Violation of statutes, workplace torts, EEOC claims
- ☑ Workplace torts, violation of statutes, breach of contract
- ☐ Contractual liability, breach of contract, violation of statutes

There are three primary sources of employment-related claims: violation of statutes, workplace torts, and breach of contract.

7. Each of the following is an example of a workplace tort claim EXCEPT:

- ☐ Negligent supervision
- ☐ Wrongful detention or imprisonment
- ☐ Invasion of privacy
- ☑ A claim under Americans with Disabilities Act

A claim under Americans with Disabilities Act is a claim involving violation of statutes.

8. Claims can be made alleging that an employer breached a written contract of employment or an implied contract. Implied contracts can include which one of the following?

- ☑ Oral promises
- ☐ Email agreements
- ☐ Collective bargaining agreements

Claims can be made alleging that an employer breached a written contract of employment or an implied contract. Implied contracts can include job offer letters, employee manuals, or oral promises.

Directions: Read the statements below and fill in the blank with the appropriate word(s) from the word bank.

discrimination	**Fair Labor Standards Act (FLSA)**	**wrongful acts**	**website accessibility suit**	**insureds**
application	**Employee Retirement Income Security Act of 1974 (ERISA)**	**third-party liability coverage**	**retaliation**	**quid pro quo**

9. Wrongful acts is the phrase the ISO EPLI policy uses to describe the types of claims covered by the policy.

10. Some policies list a variety of discrimination bases which might trigger coverage such as race, religious, age, and sex.

11. Submission to or rejection of unwelcome sexual conduct by an individual that is used as the basis for employment decisions affecting such individual is known as quid pro quo sexual harassment.

12. When an employer fires an employee or takes any other type of adverse against an employee for engaging in a protected activity, this is called retaliation.

13. Partners and members of partnerships or joint ventures, LLC members and managers, and newly acquired organizations (subject to limitations), are some examples of insureds under the ISO EPLI policy.

14. Third-party liability coverage is often included in an EPLI policy to protect insureds against claims such as discrimination and harassment by those outside the organization.

15. A claim brought by a person with visual or hearing-impairment who is unable to use features of a company website might result in a(n) website accessibility suit.

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16. The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that sets minimum standards for most voluntarily established retirement and health plans in private industry to provide protection for individuals in these plans.

17. The Fair Labor Standards Act (FLSA) is a federal law that establishes minimum wage, overtime pay, recordkeeping, and youth employment standards affecting employees in the private sector and in federal, state, and local governments.

18. The application becomes part of the EPLI policy; sometimes it is physically attached and sometimes there is language that states it is deemed to be attached.

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Section 3: Crime Coverages and Endorsements

Commercial Crime Insuring Agreements

Check-In



Directions: Identify the insuring agreements in the ISO Commercial Crime Coverage form.

1. Fidelity
   a. Employee Theft
   b. ERISA Plan Official Dishonesty
   c. Employee Theft Of Clients' Property
2. Forgery Or Alteration
   a. Forgery Of Negotiable Instruments
   b. Forgery Of Payment Card Instructions
3. Inside The Premises – Theft Of Money And Securities
4. Inside The Premises – Robbery Or Safe Burglary Of Other Property
5. Outside The Premises
6. Computer And Funds Transfer Fraud
7. Fraudulent Impersonation
8. Money Orders And Counterfeit Money

Knowledge Check

Directions: Read the scenario below and explain your response.



You have been invited to bid on the insurance for Eliza's Emporium, a new specialty store opening downtown. Eliza has asked why you recommend the purchase of crime coverage when the commercial property policy with the Causes Of Loss – Special Form you have proposed seems so comprehensive. How would you respond?

Even though the Special Form covers theft, there are numerous situations where coverage may not apply. Money and securities, for example, are not covered property. Regardless of the cause of loss, coverage will not apply. The Causes Of Loss – Special Form excludes dishonest acts by employees and others within the organization and by those to whom property is entrusted. There is also no coverage if Eliza is tricked out of her property in some way. Lastly, there are limitations on theft of certain types of property. If Eliza sells jewelry worth over $100 per item, for example, the most that will be paid for theft loss to the jewelry is $2,500.

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Loss Sustained Form vs. Discovery Form

Check-In



Directions: Regarding loss sustained crime coverage, indicate whether each of the following is true or false. Assume that the insured is not an ERISA employee benefit plan.

1. The extended period to discover loss in a Loss Sustained Form is 60 days.

True **False**

The extended period to discover loss in a Loss Sustained Form is one year.

2. A loss occurs partly during the term of the current policy and partly during the term of a previous policy written by the same insurer. The loss is discovered during the current policy term. The most that will be paid is the lesser of the limit on the current policy and the previous policy.

True **False**

When a loss occurs partly during the term of the current policy and partly during the term of a previous policy written by the same insurer, the most that will be paid is the greater of the limit on the current policy and the previous policy

3. A loss occurs partly during the term of the current policy and partly during the term of a previous policy written by a different insurer. The loss is discovered during the current policy term. The most that will be paid is the lesser of the limit on the current policy and the previous policy.

True **False**

When a loss occurs partly during the term of the current policy and partly during the term of a previous policy written by a different insurer, the most that will be paid under the current policy is the lesser of the limit on the current policy and the previous policy.

4. A loss occurs entirely during the term of the previous policy with a different insurer and is discovered under the current policy term. The previous insurer will pay the claim because the insured replaced coverage.

True **False**

The previous insurer will not pay as the loss was not discovered during the policy term or during the extended period to discover loss of that policy. The extended period to discover loss terminated immediately when coverage was replaced.

Knowledge Check



Directions: Read the scenario below and explain your thinking.

Sofia worked in the bookkeeping department of Amazing Insurance Agency and had been stealing $100 per week from the company bank account for the last seven years of her employment. It was only after Sofia retired in 2022 that the loss was discovered by the owners of Amazing. Explain how coverage would apply under a Loss Sustained Form as compared to a Discovery Form. Assume that Amazing had the same Employee Theft insurer for all years, from the beginning of Sofia's thefts through the date the thefts were discovered.

Under a Loss Sustained Form, the claim would involve multiple policies that were in effect during the time the theft occurred. Under a Discovery Form, only the policy in effect when the theft was discovered would respond to the claim.

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Fidelity Insuring Agreements

Check-In



Directions: Indicate which endorsement is the best to use in each of the situations described below. Select the letter that best matches each scenario.

A. Include Volunteer Workers As Employees (CR 25 09 06 22) **B. Include Designated Persons Or Classes Of Persons As Employees (CR 25 41 06 22)** **C. Include Designated Agents As Employees (CR 25 02 06 22)** **D. Include Computer Software Contractors As Employees (CR 25 42 06 22)** **E. Employee Theft Name or Position Schedule (CR 04 08 06 22)**	C. The insured has hired a company to act as a business manager. The company is appointed as the insured's agent and has authority to transact business on behalf of the insured.
	A. The insured is a charity that has volunteers working at events and soliciting funds.
	E. The insured wishes to only purchase coverage for theft committed by individuals holding certain positions within the company.
	B. An insured contractor regularly works with a certain subcontractor. The subcontractor has full access to the insured's premises and regularly has the insured's property.
	D. The insured is concerned that an employee of its independent software contractor might gain access to its banking information and steal funds.

A. Include Volunteer Workers As Employees (CR 25 09 06 22) adds volunteer workers, including fund solicitors, as employees.

B. Include Designated Persons Or Classes Of Persons As Employees (CR 25 41 06 22) adds as employees any natural person or group of persons named or described in the schedule.

C. Include Designated Agents As Employees (CR 25 02 06 22) adds appointed agents along with their partners, members, officers, and employees as employees.

E. Employee Theft Name or Position Schedule (CR 04 08 06 22) limits coverage to theft by named individuals or those holding scheduled positions.

D. Include Computer Software Contractors As Employees (CR 25 42 06 22) adds as employees the computer software contractor scheduled on the endorsement, along with its partners, members, officers, and employees

Check-In



Directions: Consider the following scenario and determine if Employee Theft coverage applies. Explain your answer.

Megan, a supermarket cashier, recommends that her boss hire Kevin, an old friend of hers, who was previously convicted of shoplifting. Kevin was a young man at the time, and Megan believes he is now trustworthy. Neither Megan nor Kevin mentions Kevin's past to the boss, and six months after he is hired as a cashier, Kevin steals from his new employer. Does Employee Theft Coverage apply?

Yes **No**

Yes, Megan is not the named insured or a designated person. Her knowledge of Kevin's history does not negatively affect coverage.

Knowledge Check



Directions: Read the scenario below and explain your answer.

Your insured is a janitorial service with twelve employees and a 401(k) plan. Which of the three Fidelity coverages would you recommend and why?

This insured could benefit from all three Fidelity coverages.

Employee Theft coverage will cover a situation where the insured's employee steals money, securities, or other property belonging to the insured.

ERISA Plan Official Dishonesty is important to satisfy ERISA requirements and to cover theft of 401(k) plan funds by certain individuals handling those funds.

Employee Theft Of Client's Property will help if an employee steals property belonging to a client when the employee is on the client's premises.

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Computer And Funds Transfer Fraud and Fraudulent Impersonation Insuring Agreements

Knowledge Check



Directions: Read the scenario below and explain your response

Carla is an employee in the finance department of your insured's company. Carla got tricked into sending $200,000 to a cybercriminal after receiving an email asking that this amount be wired immediately. The email Carla received looked legitimate and was similar to many others emails she had received in the past from the company's controller.

It was only when Carla confirmed with the controller that the transfer was made that she discovered she had been tricked. Although the crime policy in force includes Fraudulent Impersonation coverage, what condition could negate coverage?

There is a policy condition requiring that a reasonable effort be made to verify—but not through email—the authenticity of any transfer instruction. There is no indication that Carla did this before wiring the money.

Additional Insuring Agreements

Knowledge Check

Directions: Read the scenario below and explain your answer.



Bonnie's Bridal Shop, a tenant in a local shopping center, has a growing business. Bonnie regularly exhibits at bridal shows, taking several sample dresses to each one.

Bonnie accepts cash as well as credit cards as payment and often has large sums of money on the premises. Despite this, Bonnie is reluctant to purchase crime coverage other than the Fidelity coverages, Computer And Funds Transfer Fraud, and Fraudulent Impersonation.

What are some claims examples you could share with Bonnie to help her understand the importance of Inside The Premises – Theft Of Money And Securities and Outside The Premises coverages?

Inside The Premises – Theft Of Money And Securities

Fire on the premises destroys money and securities.

A thief breaks into the store, stealing money and securities.

The thieves that break into the store also do damage to the building, and Bonnie is legally liable for it.

Outside The Premises

Bonnie is robbed while taking deposits to the bank.

While Bonnie is packing her car after a bridal show, a thief threatens her with a weapon and steals the sample dresses.

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Section 3 Self-Quiz

Directions: Read the statements below and for each one, determine whether it is true or false.

1. Crime coverage only treats exposures to theft by those outside the insured's organization.

   True **False**

   Nearly every business has an exposure to loss that can be treated with crime coverage. Businesses not only need to be concerned with theft by those outside their organizations but should be cognizant of the risk of theft by those within their organizations as well.

2. Property policies do not cover money and securities.

   True **False**

   Regardless of the cause of loss, property policies do not cover money and securities.

3. James, an employee at Artie's Art Store, steals a shipment of oil paint to be delivered to a customer. This loss would **not be** covered under a typical property policy.

   True **False**

   Dishonesty exclusions typically bar coverage for claims arising out of dishonest or criminal acts committed by the named insured or others within the insured's organization such as partners, LLC members, or employees. There is also no coverage if someone to whom property has been entrusted has stolen it.

4. When the Causes Of Loss – Special Form is included on a property policy, there is no coverage if the insured is tricked into giving up property.

   True **False**

   Causes Of Loss – Special Form (CP 10 30 09 17) excludes this exposure in two separate ways: the voluntary parting exclusion and the limitation for property transferred on the basis of unauthorized instructions.

5. Forgery Or Alteration, Fraudulent Impersonation, and Outside The Premises are Fidelity insuring agreements.

   True **False**

   Employee Theft, ERISA Plan Official Dishonesty, and Employee Theft Of Clients' Property are Fidelity insuring agreements.

Directions: Read the following questions and select the correct response for each one.

6. When coverage is written on a Loss Sustained Form, one of the two criteria that must be satisfied to trigger coverage is:

   ☐ The loss must be discovered within 60 days after the expiration of the policy.

   ☐ The "occurrence" must take place and the thief must be arrested during the policy period.

   ☑ The "occurrence" must take place during the policy period.

   When coverage is written on a Loss Sustained Form, two criteria must be satisfied to trigger coverage.

   1. The "occurrence" must take place during the policy period; and
   2. The "occurrence" must be "discovered" by a "designated person" during the policy period or during the extended period to discover loss.

7. Provided that the coverage is not renewed or replaced, the Discovery Form includes a condition in which the occurrence must be discovered within _____ days following the cancellation or termination of the policy.

   ☐ 30

   ☑ 60

   ☐ 90

   If the occurrence is discovered within sixty days following the cancellation or termination of the policy, it is as though it were discovered during the policy period. This extended period, though, terminates immediately if coverage is renewed or replaced.

8. The three Fidelity insuring agreements are:

   ☐ Forgery Or Alteration, Fraudulent Impersonation, and Outside The Premises

   ☐ Fraudulent Impersonation, Forgery Or Alteration, Employee Theft

   ☑ Employee Theft, ERISA Plan Official Dishonesty, Employee Theft Of Clients' Property

   ☐ Employee Theft, ERISA Plan Official Dishonesty, Outside The Premises

   The three Fidelity insuring agreements are:

   1. 1a – Employee Theft
   2. 1b – ERISA Plan Official Dishonesty
   3. 1c – Employee Theft Of Clients' Property

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9. Jessie's Print Shop sends an employee to a client's office to repair a printer. The employee steals computer equipment and two printers. Which insuring agreement would cover the loss?

- [ ] Agreement 1a – Employee Theft
- [ ] Agreement 1b – ERISA Plan Official Dishonesty
- [x] Agreement 1c – Employee Theft of Clients' Property

Employee Theft Of Clients' Property coverage applies when an insured's employee steals a client's covered property from the client's location.

10. Stephen is the VP of HR for his company and handles the 401(k) plan funds. Stephen steals $150,000 of those 401(k) plan funds. What type of agreement would cover the loss?

- [ ] Agreement 1a – Employee Theft
- [x] Agreement 1b – ERISA Plan Official Dishonesty
- [ ] Agreement 1c – Employee Theft of Clients' Property

The second of the three Fidelity coverages is ERISA Plan Official Dishonesty. The coverage applies when there is loss of or damage to money, securities, and other property belonging to an ERISA employee benefit plan. The loss must be due to fraud or dishonesty by an ERISA plan official or a sole proprietor named insured.

11. Ella, an employee of the insured, forges the insured's checks and cashes them. From these checks, she keeps $6,000. What type of agreement would cover the loss?

- [x] Agreement 1a – Employee Theft
- [ ] Agreement 1b – ERISA Plan Official Dishonesty
- [ ] Agreement 1c – Employee Theft of Clients' Property

The first of the three Fidelity coverages is Employee Theft. Employee Theft coverage applies when there is theft of money, securities, or other property by an employee– whether identified or not– acting alone or in collusion with other persons.

12. Theft committed by one's entering or changing data or computer programs within the computer system of the insured or that of a third party performing services for the insured is covered by which insuring agreement?

- [x] Computer And Funds Transfer Fraud
- [ ] Fraudulent Impersonation
- [ ] Forgery Or Alteration
- [ ] Money Orders And Counterfeit Money

Computer And Funds Transfer Fraud covers two types of crime:

1. The entering or changing of data or computer programs within the computer system of the insured or a third-party performing services for the insured
2. A fraudulent transfer instruction sent to a financial institution, purportedly by the insured, directing the financial institution to transfer money or securities from the insured's account

13. The transferring of money or securities based on instructions from a thief impersonating a client, vendor, or another person with the insured's organization is covered by which insuring agreement?

- [ ] Computer And Funds Transfer Fraud
- [ ] Money Orders And Counterfeit Money
- [ ] Forgery Or Alteration
- [x] Fraudulent Impersonation

Fraudulent Impersonation coverage applies to two different types of crime:

1. A thief tricks the insured into changing the transfer instructions for payment due to a client or vendor so that the payment goes to the thief instead.
2. The insured transfers money or securities based on instructions from a thief impersonating a client, vendor, or another person with the insured's organization.

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Directions: Select the letter of the insuring agreement that would cover in each scenario.

A. Inside the Premises – Theft Of Money And Securities **B.** Money Orders And Counterfeit Money **C.** Inside The Premises – Robbery Or Safe Burglary Of Other Property **D.** Forgery Or Alteration **E.** Outside the Premises	__C.__ A gunman enters an electronics store at closing time, threatens the employee working in the store, and steals inventory.
	__A.__ Thieves break into Marty's Diner and steal cash from the register, damaging the register in the process.
	__D.__ Marjorie uses her corporate card to take clients out to dinner. One of her guests takes note of the credit card number and uses it later to make expensive purchases by signing Marjorie's name.
	__B.__ A customer pays for a large purchase with $50 bills that turn out to be fake.
	__E.__ Carla, an employee of the named insured, is robbed in the parking lot of the bank where she is planning to deposit the day's receipts.

A. Inside the Premises – Theft Of Money And Securities

This coverage applies to loss from theft, disappearance, or destruction of money and securities. The money and securities must be inside the insured's premises, the interior of the building where business is conducted, or inside a financial institution, e.g., bank, insurance company, stock brokerage firm.

B. Money Orders And Counterfeit Money

This insuring agreement provides coverage when the insured accepts, in exchange for merchandise, money or services, either of the following:

1. Money orders issued that are not paid upon presentation
2. Counterfeit money

C. Inside The Premises – Robbery Or Safe Burglary Of Other Property

The two covered losses are:

1. Actual or attempted robbery of a custodian inside the insured's premises
2. Loss to other property in a safe or vault inside the insured's premises by actual or attempted safe burglary

D. Forgery Or Alteration

This insuring agreement has two parts, and, in each part, separate limits can be chosen:

1. Forgery of Negotiable Instruments – This coverage applies in the event of forgery or alteration of an outgoing negotiable instrument such as check, draft, or promissory note.
2. Forgery Of Payment Card Instruments – Coverage is provided for forgery in conjunction with credit, debit, or charge cards issued to the insured or to any employees or ERISA plan officials for business purposes.

E. Outside the Premises

Outside The Premises coverage helps with losses outside the insured's building or away from the insured's location.

When the loss is to money and securities, the covered causes of loss are theft, disappearance, or destruction. The money and securities must be in the care and custody of a messenger or an armored motor vehicle company.

When the loss is to other property outside the premises, the covered cause of loss is actual or attempted robbery. The property must be in the care and custody of a messenger or an armored motor vehicle company.

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Section 4: Cyber Exposures and Coverage

Common Cyber Exposures

Knowledge Check

Directions: Read the scenario below and explain your response.



Ned owns a comic book store in the revitalized downtown section of his city. While meeting with Ned to discuss his insurance, you discover that he is also the largest comic book dealer on the Internet, selling his comic books on an international sales platform. While Ned's local sales are lackluster, his e-commerce sales are lucrative.

What cyber exposures does Ned have? Be sure to explain why Ned's property and liability coverages are not sufficient to cover his exposure.

If Ned takes credit cards, the credit card detail storage can be compromised in a cyber breach, creating credit card compliance issues as well as liability issues for any stolen identities.

Since Ned has a website and uses the internet, he has exposure to viruses and malware being introduced into his website or email. People from all over the world can access his website and he could be subject to violation of regulations from state, federal, and international authorities. He can also be subject to attacks that reduce or block data bandwidth.

His property and liability policies are insufficient to treat his exposure. Property coverage provides very little coverage for data damage and is subject to the perils covered by the policy. Traditional liability policies exclude almost all cyber-related exposures.

Cyber Insurance Declarations

Knowledge Check

Directions: Read the scenario below and explain your response.



Ivan, your client, calls you as he is confused by the information in his new cyber policy. As you talk to Ivan, please tell him what information is typically included on the Declarations.

Information about the insured and its location;

website address;

retroactive date and/or prior or pending litigation date—if coverage is on a claims-made basis;

a list of insuring agreements including limits of coverage, retentions, and annual aggregate

Preamble and Definitions

Knowledge Check

Directions: Read the scenario below and explain your response.



Associated Materials Supply, Inc., is purchasing cyber coverage from your agency. Mario, the company's CFO, does not understand some of the terms used in the coverage and would like to know more about them. Since Associated allows employees to use their personal devices to monitor email, Mario would like to know if those are considered part of Associated's computer system.

Using what you've learned from the defined terms found in the ISO Information Security Protection Policy, please respond to Mario's inquiry.

The definition of the organization's "computer system" includes devices owned by employees provided they have agreed in writing to the organization's personal device use policy.

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Insuring Agreements

Check-In

Directions: Read the statements below and for each one, determine whether it is true or false.

1. First party losses are losses that have a direct effect on the insured's operations or property.

True **False**

First party losses are losses that have a direct effect on the insured's operations or property. This typically includes both direct and indirect loss or expense.

2. Eva, the insured, is presented with a demand for ransom in exchange for the return of confidential data. This is an example of a denial of service attack.

True **False**

This is an example of cyber extortion and a ransomware demand, where the insured is presented with a demand for ransom before the data is decrypted and given back to the insured.

3. Meyer Mechanics is a small business with a tarnished reputation due to a recent data breach. This is an example of notification costs.

True **False**

This is an example of negative publicity from which many small businesses never recover because the public may no longer feel comfortable having their information stored in the business's computer system.

4. Costs incurred in a cyber extortion event and ransom payments are typically covered under one insuring agreement.

True **False**

Costs incurred in a cyber extortion event and ransom payments are two separate losses that are typically covered under one insuring agreement.

Knowledge Check

Directions: Read the scenario and explain your response.



Fry My Hair, Inc. (FMH), manufactures blow dryers, curling irons, and flat irons and sells them directly to the public through their e-commerce portal. FMH accepts all major credit cards, including those from outside the U.S., using the daily exchange rate for foreign payments. Since customers generally make repeat orders, FMH stores customer data, including credit card numbers and other personal information.

1. What exposures does FMH have for first party and liability losses if a cyber breach were to occur?

First party exposures: Forensic analysis; website vandalism; notification costs; ransomware and cyber extortion; DoS and DDoS attacks; restoring data; negative publicity; PCI DSS fines and penalties

Liability exposures: Infected emails; infected websites; wrong recipient; infringement issues; regulatory issues

2. What insuring agreements might be important to FMH?

First party insuring agreements: Cyber Incident Or Information Security Breach Expense; Cyber Extortion Events; Replacement Or Restoration Of Electronic Data; Business Income And Extra Expense

Liability insuring agreements: Cyber Incident Or Information Security Breach Liability; Regulatory Proceeding Liability; Payment Card Industry Liability; Media Liability

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Limits of Insurance, Retention, Defense and Settlement

Knowledge Check



Directions: Read the following and respond to the questions below; be prepared to explain your thinking.

ACME Supply has an information security breach that results in several types of losses. ACME's cyber policy includes the following insuring agreements, limits, and retentions:

- **Cyber Incident Or Information Security Breach Expense:** limit $300,000; retention $2,500
- **Replacement Or Restoration Of Electronic Data:** limit $100,000; retention $2,500
- **Cyber Incident Or Information Security Breach Liability:** limit $500,000; retention $5,000
- **Payment Card Industry Liability:** limit $500,000; retention $5,000
- **Policy Annual Aggregate Limit:** $1,000,000

1. After the breach, ACME incurs forensic expenses and notification costs of $200,000. Will the policy pay?

   Yes, Cyber Incident or Information Security Breach Expense coverage applies.

2. ACME has to shut down its e-commerce portal for three days while data is being restored. It loses $400,000 in income during that period. Will the policy pay?

   No, the policy does not include coverage for Business Income And Extra Expense.

3. ACME gets sued by customers whose identities were stolen. The claims settle for a total of $400,000. Will the policy pay?

   Yes, Cyber Incident or Information Security Breach Liability coverage applies.

4. ACME is fined $100,000 based on the terms of the payment card service agreement. Will the policy pay?

   Yes, Payment Card Industry Liability coverage applies.

5. How much will ACME pay in retentions for the above losses?

   When multiple insuring agreements are triggered by the same loss, the insured pays only the highest retention. In this case, ACME's total retention is $5,000.

6. How do the above claims affect the annual aggregate?

   $695,000 will be paid for this loss ($200,000 + $400,000 + $100,000 minus the $5,000 retention). The annual aggregate is reduced to $305,000.

Exclusions

Knowledge Check



Directions: Read the scenario below and explain your response.



During a thunderstorm, lightning strikes the insured's premises, causing damage to its computer systems and corrupting some data. Explain why there would or would not be cyber coverage under the insured's policy.

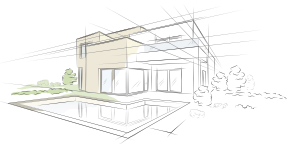
There is no coverage. The policy excludes damage caused by acts of nature.

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Conditions

Knowledge Check

Directions: Read the scenario below and explain your response.



Exact Architecture and Engineering has a cyber policy in force that was purchased from your agency. In addition to their primary business, they also have a subsidiary that is a general contractor. They are thinking of either selling or shutting down the subsidiary and would like to know how their policy would treat any cyber losses that might be discovered after the sale or shutdown. Please explain how the policy will respond, and list other conditions in the policy, as well.

Sample Answers:

Cessation of subsidiaries: For first party losses, coverage will continue until the end of the policy period and any extended discovery period for losses that occurred prior to the shutdown of the subsidiary. For liability losses, coverage will continue until the end of the policy period and any run-off period for losses that occurred prior to the shutdown of the subsidiary.

Changes in exposure

Merger or acquisition of the named insured

Confidentiality

Other insurance

Reporting, Notice, And Duties In The Event Of A Cyber Incident, Cyber Extortion Event, Information Security Breach or Interruption

Reporting, Notice, And Duties In The Event Of A Claim Or A Wrongful Act That May Result In A Claim

Representations And Severability Of The Application

Territory

Valuation

Extended Discovery and Reporting Periods

Knowledge Check

Directions: Read the scenario below and explain your response.



Your client, Siros Pharmaceuticals, decides not to renew its cyber policy. Siros asks how long it has, after the policy expires, to report claims for first party losses and wrongful acts that took place prior to expiration of the policy. What do you tell them?

First party losses must be reported as soon as practicable. If the loss is discovered during the policy period, it must be reported no later than 60 days after the end of the policy period. If the loss is discovered during the 60-day Extended Discovery Period, it must be reported no later than 60 days after the end of the Extended Discovery Period.

With respect to third party losses, the policy includes a Basic Extended Reporting Period of 60 days, although the insured has the right to purchase a longer Extended Reporting Period. Claims must first be made against the insured during the policy term or during the Extended Reporting Period. The claim must be reported to the insurer no later than 60 days after the end of the policy period or, if an Extended Reporting Period applies, no later than 60 days after the end of the Extended Reporting Period.

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Section 4 Self-Quiz

Directions: Match the term with the correct definition.

A. Content **B.** Claim **C.** Discover or Discovered **D.** Electronic Data **E.** Suit **F.** Preamble **G.** Employee **H.** Cyber Incident **I.** Application **J.** Liability Loss	I. A place to gather the information necessary for the underwriters to decide on the exposure and insurability of the applicant
	B. A written demand against an insured for monetary or nonmonetary damages
	F. Provides important information to the insured before the first section of the policy
	A. Any type of communicative or informational material, regardless of its nature or form, including material disseminated electronically such as via a website or electronic mail
	H. Unauthorized access to or use of the organization's computer system
	C. When any insured becomes aware of facts that would cause a reasonable person to assume a cyber incident or extension event has occurred
	D. All the information, images, or sounds stored by the insured
	J. Applies to awards or judgments that compensate the claimant, usually in the form of money, and includes interest on those judgments, including pre- and post-judgment interest
	E. A civil proceeding in which damages are claimed against the insured and are covered by the policy
	G. Includes full- or part-time workers, seasonal or temporary workers, leased workers, interns, and volunteers

Directions: Read the statements below and for each one, determine whether it is true or false.

1. A company collecting the demographic information of their employees is an example of a regulatory exposure.

True **False**

Collection of private information is an exposure that can occur when businesses collect private information on their employees for HR-related reasons.

2. When a business's Instagram page becomes hacked, this is an example of websites and social media exposure.

True **False**

Most businesses have at least a basic website where customers can learn more about the business and what it does. Many businesses have websites that are also built for selling products. Another way of interacting with the public is through social media pages.

3. The ISO Commercial Crime Policy can provide some cyber crime coverage under selected insuring agreements and endorsements.

True **False**

The Commercial Crime Policy can provide some coverage under selected insuring agreements and endorsements. Computer and Funds Transfer Fraud and Fraudulent Impersonation (also known as social engineering) coverages may be provided by the Crime Policy; however, coverage may not be as robust as what may be available through some cyber policies. Like other traditional policies, coverage is still somewhat limited and does not provide coverage for many of the exposures faced by insureds.

4. The insuring agreement section of a cyber policy includes key information and risk characteristics of the insured.

True **False**

The cyber Declarations, which varies by insurer, includes key information and risk characteristics of the insured.

5. When confidential files are breached, cyber regulations require that affected parties be informed. This is an example of website vandalism first party loss.

True **False**

A Notification costs first party loss exposure is when confidential files are breached; cyber regulations require notification of affected parties. Notification can include notification by regular mail and email.

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6. When data is lost, stolen, or damaged in a cyber incident, It must be restored or replaced.

True **False**

When data is lost, stolen, or damaged in a cyber incident, it must be restored or replaced. Traditional policies might pay for the blank software, but the real costs are associated with inputting the data.

7. A third party liability that involves copyright violation has to do with liability pertaining to regulatory issues.

True **False**

It has to do with infringement issues; copyrights and intellectual property rights can be easily violated. When websites are created, the content (words, pictures, videos, etc.) can cause issues if it contains information that has not been properly secured via royalties.

8. Under some cyber policies, media liability coverage is called website publishing liability.

True **False**

Media liability includes coverage provided under some cyber policies as Web Site Publishing Liability. This includes material on the insured's website as well as any other errors arising out of the insured's gathering, recording, collecting, writing, editing, publishing, exhibiting, broadcasting, or releasing of content. This could apply, for example, to insured's posts on social media sites.

9. The maximum amount the policy will pay regardless of the total of the limits for each separate insuring agreement is known as the policy aggregate limit of insurance.

True **False**

Many cyber policies include an annual aggregate limit of insurance. This is the maximum amount the policy will pay regardless of the total of the limits for each separate insuring agreement. Once this limit is reached, the policy will no longer pay for any cyber losses during the policy period.

10. Once the insuring agreement limit is reached, the insurer has no further obligation under that insuring agreement.

True **False**

Each insuring agreement selected by the insured will have its own limit. This limit is the maximum amount the policy will pay for that particular insuring agreement during the policy term. Once the insuring agreement limit is reached, the insurer has no further obligation under that insuring agreement.

Directions: Read the following multiple-choice questions and select the correct response for each one.

11. Each insuring agreement will typically be subject to a _____ amount, which will be subtracted from the loss.

- ☐ sublimit
- ☑ retention
- ☐ defense
- ☐ settlement

Each insuring agreement will typically be subject to a retention amount, which, similar to a deductible, will be subtracted from the loss. In the case of liability losses, the insured is obligated to pay the retention amount.

12. The insurer will need the consent of the insured before entering into a _____.

- ☑ settlement
- ☐ defense
- ☐ claim
- ☐ coverage extension

As in many specialty policies (EPLI, D&O, etc.), the cyber insurer has the right to negotiate and settle any claim. However, the insurer will not enter into a settlement without the consent of the insured. This policy language is known as a "consent to settle clause."

13. Contractual liability is typically excluded as it relates to cyber policies, however, there are some exceptions. Identify the exception to this exclusion from the list below.

- ☐ A lease agreement for computer hardware
- ☐ A lease agreement for computer software
- ☐ A contract with a cloud computing company
- ☑ Liability the insured would have even if there were no contract or agreement

Generally, contractual liability is excluded as it relates to cyber policies, however, there are a few exceptions to this exclusion.

1. Liability the insured would have even if there was no contract or agreement
2. A violation of a payment card service agreement when the Payment Card Industry Liability insuring agreement is activated
3. Breach of contract: Coverage is provided for breach of any written, oral, or implied-in-fact indemnification or hold harmless agreement between an insured and a person or organization distributing “content” by, or on behalf of, the insured. Implied-in-fact

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14. If the named insured consolidates with another entity, and the named insured is NOT the surviving entity, this would be an example of:

- [ ] Confidentiality
- [ ] Cessation of Subsidiaries
- [x] Merger Or Acquisition Of Named Insured
- [ ] Bankruptcy

If the named insured merges into or consolidates with another entity and either of the following occurs: the named insured is not the surviving entity; or more than 50% of the outstanding securities or voting rights are owned or controlled by the other entity—then coverage will continue under certain terms.

15. In the event of a merger, consolidation, or acquisition of the named insured or cessation of a subsidiary, the named insured has the right to purchase a Run-Off Coverage Period of up to how many years?

- [ ] Four years
- [x] Six years
- [ ] Ten years
- [ ] Two years

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Section 5: Commercial Excess / Umbrella Coverages

Purposes of Excess Liability Policies

Check-In



Directions: Read the questions and choose the correct response(s).

1. Which of the following are purposes of an excess liability policy that is not a commercial umbrella? (Please choose one or more correct responses.)

   - [x] To provide additional limits that are excess over those provided in the underlying policies of insurance
   - [x] To drop down when the aggregate limit of an underlying policy is reduced or exhausted
   - [ ] To provide primary coverage, subject to the SIR, when the excess liability policy provides broader coverage than the underlying policies

   Only a commercial umbrella becomes primary, subject to the SIR, when it provides broader coverage than the underlying policies.

2. Which of the following are purposes of a commercial umbrella policy? (Please choose one or more correct responses.)

   - [x] To provide additional limits that are excess over those provided in the underlying policies of insurance
   - [x] To drop down when the aggregate limit of an underlying policy is reduced or exhausted
   - [x] To provide primary coverage, subject to the SIR, when the commercial umbrella provides broader coverage than the underlying policies

   All three are purposes of a commercial umbrella policy.

Knowledge Check



Directions: Read the following and write your response.

Your insured is trying to understand the difference between a commercial umbrella liability policy and other types of commercial excess liability policies. How would you explain the difference between the two?

Sample Answer:

Both commercial umbrella and other types of commercial excess liability policies provide additional limits that are excess over those provided in the underlying policies of insurance. Both also drop down when an underlying aggregate is reduced or exhausted. A commercial umbrella, though, may also provide primary coverage, subject to a self-insured retention, if an underlying policy does not cover the loss.

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Key Features of the Declarations

Knowledge Check



Directions: Indicate whether the SIR applies in the following situations and explain why or why not.

1. A security firm signs a contract agreeing to indemnify a customer for false imprisonment and wrongful detention losses. The underlying CGL includes contractual liability coverage, but only for bodily injury and property damage claims. The commercial umbrella's contractual liability coverage is broader and applies to these types of personal injury offenses. Does the SIR apply?

   Yes **No**

   The SIR applies because the commercial umbrella is providing broader coverage than the underlying CGL policy.

2. The insured's driver causes a multi-vehicle collision. Several people are injured, and there is extensive property damage. The underlying business auto policy responds, but its per accident limit is too low to pay the claims in full. The commercial umbrella responds. Does the SIR apply?

   Yes **No**

   The SIR does not apply when the commercial umbrella provides excess limits in a claim covered by an underlying policy.

3. The insured has had a bad year, and by the time the fourth premises liability claim is made, there is only $200,000 left in the CGL's general aggregate. The fourth claim is settled for $500,000, and the commercial umbrella responds once the CGL pays the rest of its $200,000 aggregate. Does the SIR apply?

   Yes **No**

   The SIR does not apply when the commercial umbrella drops down to replace the exhausted underlying aggregate limit.

Concurrency

Knowledge Check

Directions: Respond to the scenario and explain your reasoning.



An insured with a CGL calls several months into the policy term and wants to add an excess liability policy to its insurance program. Explain why writing excess liability coverage with an effective date later than the CGL's effective date could be a problem, and offer a possible solution.

Sample Answers:

Most excess liability policies require the aggregate limits of underlying policies to be unimpaired as of the effective date of the excess liability policy. If those aggregates are impaired because of claims that have been paid, there could be a gap in coverage.

1. One solution is to add a nonconcurrency endorsement to the excess liability policy if the policy does not already include such language.
2. Another solution is to cancel and rewrite any underlying policies with aggregate limits so that the effective dates of the primary and excess liability policies are the same.

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Underlying Insurance

Knowledge Check



Directions: Explain how a $3,000,000 excess liability policy will respond in the following situations.

1. A $1,000,000 business auto liability policy is included on the schedule of underlying insurance. That policy cancels for non-payment of premium one month before the insured causes an accident involving significant bodily injury and property damage. The claim settles for $2,000,000.

   The excess liability policy responds as if the required business auto liability limits were in effect, paying $1,000,000 after the insured pays $1,000,000.

2. A $1,000,000 CGL policy is included on the schedule of underlying insurance. Three months into the term, the insured reduces the CGL limit to $500,000 to save premium. After that change is made, a products liability claim is made against the insured and settled for $1,500,000.

   The CGL pays its policy limit of $500,000. The excess liability policy responds as if the required CGL limits were in effect. The insured must pay $500,000 before the excess liability policy pays the remaining $500,000.

The Insuring Agreement

Check-In



Directions: Describe three common ways excess liability insuring agreements may apply.

1. A dual insuring agreement with the first applying to bodily injury and property damage liability and the second applying to personal and advertising injury liability
2. A dual insuring agreement with the first applying to excess liability coverage and the second applying to commercial umbrella coverage
3. All coverage provided is addressed in a single insuring agreement that typically applies to bodily injury, property damage, and personal and advertising injury liability.

Knowledge Check



Directions: Read the scenario below and explain your response.

Your insured has heard that some excess liability policies may require the insured pay the claim and await reimbursement from the insurer. Your insured wants to be sure this is not the case with its newly purchased policy. Explain the difference between coverage written on a pay on behalf of basis versus coverage written on an indemnify basis.

Sample Answer:

Most excess liability policies are written on a pay on behalf of basis where the insurer pays covered claims on behalf of the insured. Some policies, though, are written on a strict indemnity basis. These require the insured to control the defense and pay the claim, with the insurer reimbursing the insured afterward. There is a third approach called "indemnity based on a legal obligation to pay." In these forms, the insured controls the defense and settles the claim. Once the legal obligation to pay is established, though, the insurer will pay the settlement or judgment.

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Key Coverage Considerations

Check-In



Directions: Indicate whether the following statements are true or false, and include support for your answer.

1. All named insureds on underlying policies are automatically named insureds on stand alone excess liability and commercial umbrella policies.

True **False**

With some coverage forms, any named insured on an underlying policy is automatically a named insured on the excess liability policy. In other coverage forms, all named insureds must be listed on the Declarations page of the excess liability policy.

2. It is never necessary to add an additional insured to a stand alone excess liability or commercial umbrella policy.

True **False**

Excess liability policies vary in their treatment of additional insureds. In some forms, for example, an additional insured is only covered if it is covered on an underlying policy and if the named insured agreed to provide such coverage in a written contract. With this language, it is sometimes necessary to add an additional insured endorsement to the excess liability policy.

Check-In



Directions: Choose the appropriate word or phrase to complete each of the sentences below.

defense costs	**punitive damages**	**endorsements**	**property damage**	**within**
ultimate net loss	**duty to defend**	**in addition to**	**mental anguish**	**exclusions**

1. Bodily injury in the ISO commercial umbrella policy includes resultant mental anguish.

2. Some excess liability policies limit coverage to compensatory damages, excluding coverage for punitive damages.

3. In some cases, an excess liability insurer does not have a(n) duty to defend but may still have the right to participate in the defense.

4. Supplementary payments are paid in addition to the limit of insurance.

5. Ultimate net loss describes the amount the insurer is obligated to pay within the limits of liability.

6. In many excess liability policies, endorsements are needed if the aggregate limits are to apply separately to each location and/or project.

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Knowledge Check

Directions: Read the scenario below and explain your reasoning.



Joseph, a new insured who understands the importance of defense in a liability policy, asks when an excess liability insurer will defend a claim and how defense costs are paid. How will you respond to Joseph?

Sample Answer:

When a catastrophic claim exceeds the limit of the underlying policy or when an underlying policy's aggregate is exhausted, the excess liability insurer normally has the duty to defend. When a commercial umbrella drops down to be primary because it has broader coverage than the underlying policies, the commercial umbrella insurer typically has the duty to defend. Depending on the language in the excess liability form, defense costs may be paid within the limit of insurance or in addition to it.

Exclusions

Knowledge Check

Directions: Read the scenario below and respond.

Greyson, your long-time customer, has been reading his policy to try to determine whether coverage applies to something that recently happened. He doesn't see an exclusion in the exclusions section, so assumes the policy should respond. Explain to Greyson some of the other places in the policy that should be checked to determine whether coverage applies or is excluded.

Sample Answer:

The insuring agreement is the starting point to understanding how coverage under the policy applies. The definitions section must also be checked to determine the extent of coverage in the policy. Endorsements may also be added to limit the scope of coverage under the policy.

Section 5 Self-Quiz

Directions: Explain the purposes of each type of excess liability policy by identifying its characteristics. Fill in the columns by answering: Yes, No, and Maybe.

Characteristic	Follow form excess liability	Stand alone excess liability	Commercial umbrella
A. Provides additional limits that are excess over those provided in the underlying policies of insurance	YES	YES	YES
B. Drops down when an underlying aggregate is reduced or exhausted	YES	YES	YES
C. Provides broader coverage than the underlying policies	NO	MAYBE	YES
D. Has its own insuring agreement, terms, and conditions	NO	YES	YES
E. Provides primary coverage, subject to a self-insured retention, if the policy provides coverage that is broader than the underlying policies	NO	NO	YES

A. All three types of excess liability policies provide additional limits that are excess over those provided in the underlying policies of insurance.

B. All three types of excess liability policies drop down when an underlying aggregate is reduced or exhausted.

C. A follow form excess liability policy does not provide broader coverage as it mirrors the coverage in the underlying policies. It does not have its own insuring agreement, terms, and conditions.

D. An excess liability policy may provide broader coverage than the underlying policies because it has its own insuring agreement, terms, and conditions. It will not, however, drop down to provide primary coverage if an underlying policy does not cover the loss.

E. A commercial umbrella has its own insuring agreement, terms, and conditions. It is the only one of the policies that may provide primary coverage, subject to a self-insured retention, if an underlying policy does not cover the loss.

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Directions: Read the statements below and for each one, determine whether it is true or false.

1. Most excess liability policies are written on an indemnify basis.

True **False**

Most excess liability policies are written on a pay on behalf of basis.

2. With dual insuring agreements, some insurers follow the pattern seen in ISO forms and some follow the pattern seen in some AAIS forms.

True **False**

Policies with dual insuring agreements usually follow one of two patterns. Some insurers follow the pattern seen in ISO forms and other insurers follow the pattern seen in some AAIS forms.

3. A singular insuring agreement is also referred to as a bifurcated form.

True **False**

Although follow form excess liability and stand alone excess liability policies typically have only one insuring agreement, a commercial umbrella may have one (singular insuring agreement) or two (dual insuring agreement). Policies with dual insuring agreements are also referred to as bifurcated forms.

4. Excess liability policy exclusions only appear in the exclusions section of the policy.

True **False**

Exclusions can be found in the insuring agreement, the definitions section, the exclusion section of the policy, and in endorsements.

5. **Commercial Liability Umbrella Coverage Form (CU 00 01 04 13)** provides coverage when the insured causes fire damage to a rented premises.

True **False**

The ISO form excludes property damage to property owned, rented or occupied by the named insured.

6. **Commercial Liability Umbrella Coverage Form (CU 00 01 04 13)** provides contractual liability coverage for certain personal and advertising injury offenses.

True **False**

The contractual liability exclusion in Coverage B of the ISO form does not apply to liability for false arrest, detention or imprisonment assumed in a contract or agreement.

7. Most excess liability insurers are willing to provide coverage for uninsured/underinsured motorist and employment practices liability exposures.

True **False**

Most excess liability insurers do not intend to cover these exposures and add exclusionary language to make sure coverage does not apply.

8. An excess liability policy is meant to provide additional limits that are excess over those provided in the underlying policies of insurance and to respond to losses when the aggregate limit of an underlying policy is reduced or exhausted.

True **False**

The first purpose is to provide additional limits that are excess over those provided in the underlying policies of insurance. The second purpose is to respond to losses when the aggregate limit of an underlying policy is reduced or exhausted.

9. The amount the named insured is responsible for when the commercial umbrella provides coverage broader than the underlying policies is known as the self-insured retention (SIR).

True **False**

The SIR is listed as a dollar amount on the declarations of a commercial umbrella policy. This is the amount the named insured is responsible for when the commercial umbrella provides coverage that is broader than the underlying policies.

10. When the commercial umbrella drops down to be primary because its coverage is broader than the underlying policies, the SIR will apply.

True **False**

The only time the SIR applies is when the commercial umbrella drops down to be primary because its coverage is broader than that of the underlying policies. The SIR does not apply to any other type of loss.

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Directions: Read the following multiple-choice questions and select the single correct response for each.

11. When policies have the same effective and expiration dates, they are said to be:

- ☐ Nonconcurrent
- ☐ Indemnified
- ☐ Bifurcated
- ☑ Concurrent

When policies have the same effective and expiration dates, they are said to be concurrent. If those dates are not the same, the policies are nonconcurrent.

12. Which of the following is **not** a reason why there could be a coverage gap if the excess liability policy and underlying policies have different effective dates?

- ☐ Excess liability policies typically require the limits of underlying policies be unimpaired as of the effective date of the excess liability policy.
- ☐ The underlying limits should not have been reduced or exhausted by payment of losses that occurred prior to the effective date of the excess liability policy.
- ☑ Excess liability policies typically include language that allows the underlying limits to be reduced or exhausted by payment of losses that occur at any time.
- ☐ The underlying aggregate could have been reduced by payment of losses that occurred prior to the effective date of the excess liability policy.

Language in most excess liability policies requires the limits of those underlying policies (sometimes referred to as the retained limits) to be unimpaired as of the effective date of the excess liability policy. In other words, the underlying aggregate limits should not have been reduced or exhausted by losses prior to the effective date of the excess liability policy.

13. Identify one way to effectively solve a nonconcurrency issue.

- ☐ Write a short-term excess liability policy to expire with the underlying policy.
- ☐ Add nonconcurrency language to the CGL policy.
- ☑ Cancel and rewrite so that all policies have concurrent dates.
- ☐ Wait until the CGL renews to write the excess liability policy.

There are two ways to effectively solve nonconcurrency issues:

1. Underlying policies can be cancelled and rewritten so that all policies have concurrent dates.
2. Some insurers have nonconcurrency language in their forms or can add nonconcurrency endorsements. This language is added to the excess liability policy to remove any concurrency requirement in the policy. With this nonconcurrency language, the excess liability policy can be written short-term to expire with the underlying policies, and concurrency will exist at renewal.

14. CGL, business auto liability, and employers liability are:

- [x] policies that may be included on the schedule of underlying insurance of an excess liability policy.
- [ ] underlying policies with aggregate limits.
- [ ] exclusions on an excess liability policy.
- [ ] the only policies that can be included on the schedule of underlying insurance.

Commonly required underlying coverages include CGL, business auto liability, and employers liability. If the insured has other known exposures, the insurer might require that additional policies be included on the schedule of underlying insurance, especially if the insurer will be providing excess liability coverage for those exposures. Other policies include employee benefits liability, liquor liability, aircraft liability, watercraft liability, and others.

15. If the insured goes bankrupt or the underlying insurer becomes insolvent, the following will happen:

- [ ] The excess liability insurer is relieved of its obligations, and the excess liability policy will still pay regardless of whether the insured is bankrupt or the insurer becomes insolvent.
- [ ] The excess insurer is not relieved of its obligations, and the excess liability policy will not pay regardless of whether the insured is bankrupt or the insurer becomes insolvent.
- [x] The excess liability insurer is not relieved of its obligations, and, in the case of an insolvent insurer, will pay as though the underlying coverage were in full effect.

When the insured becomes bankrupt, the excess liability insurer is not relieved of its obligations under the policy. If an underlying insurer becomes insolvent, the excess liability policy will still pay; however, it will pay as if the underlying coverage were in full effect.

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16. Which of the following is true regarding commercial umbrella policies?

- ☐ All named insureds on underlying policies are automatically included as named insureds on a commercial umbrella policy.
- ☐ All additional insureds on underlying policies are automatically included as additional insureds on a commercial umbrella policy.
- ☐ If the underlying CGL general aggregate applies separately to each location, the commercial umbrella aggregate will also apply separately to each location.
- ☑ Ultimate net loss is a term used in some policies to describe the amount that the insurer is obligated to pay within the limits of liability.

With commercial umbrella policies, who is an insured may differ from the underlying policies. One should not assume that all named and additional insureds on the underlying policies are automatically covered by the commercial umbrella. While some excess liability policies will have aggregates that apply in the same manner as underlying policy aggregates, most do not. Ultimate net loss is a term used in some policies to describe the amount the insurer is obligated to pay within the limits of liability.

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Appendix

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Preparing for the Final Exam

Keep in mind, the most important measure of your knowledge will be witnessed in your service to your organization. Think of an exam as a tool. Use it to come to an understanding of what you know, how it affects your work, and what more you would like to know to have even greater success in the workplace.

The testing period is two hours long. You are required to earn a minimum of 140 out of 200 possible points. Questions appear in the order of presentation of the topics.

Remain aware of the time as you take the exam. Pace yourself and be aware that unanswered questions are considered incorrect.

Study Techniques

Here are some techniques you can use to help you prepare for the Final Exam. Apply these same techniques to each section in this Learning Guide.

1. Review the Section Goal.

2. Re-read the Introduction.

3. Review each Learning Objective.

4. Change each head and subhead into a question. Then answer the question. For example, header: Risk Financing Plans

   Question: What are some examples of risk financing plans?

5. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific learning objective.

6. Check your answers to each Check-In activity. Correct your original answers, if necessary.

7. Check your answers to each Knowledge Check. Consider ways to improve your original answers.

8. Re-read the summary at the end of each section.

9. Check your answers for each section Self-Quiz. Correct your original answers, if necessary.

10. Review any comments, highlights, or notes you made in each section.

11. Rewrite important ideas in your own words. Find ways to relate your work experiences to those ideas.

12. Make flash cards to help you review important vocabulary.

Sample Exam Questions

1. Bailment is a relationship where one party accepts property of another for a particular purpose. There are several types of bailment, and the bailee's duty of care varies depending on the type of bailment. Please explain the duty of care in a **gratuitous bailment for the benefit of the bailee.**

Sample Answer:

The bailee owes the bailor a much higher duty of care.

2. In the ISO Information Security Protection Cyber Policy, there are eight insuring agreements. Please list two first party insuring agreements and two liability insuring agreements.

Sample Answers:

First Party (need 2)

- Cyber Incident Or Information Security Breach Expense
- Cyber Extortion Events
- Replacement Or Restoration Of Electronic Data
- Business Income And Extra Expense

Liability (need 2)

- Cyber Incident Or Information Security Breach Liability
- Regulatory Proceeding Liability
- Payment Card Industry Liability
- Media Liability

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Glossary of Terms

Section 1: Inland Marine[1]

Part 1 – Introduction and Bailee Coverage

actual cash value the value of covered property is based on the actual cash value at the time of loss (with a deduction for depreciation)

American Association of Insurance Services (AAIS) an organization that collects statistical data, promulgates rating information, develops standard policy forms, and files information with state regulators on behalf of insurance companies that purchase its services

bailee the party in a bailment relationship that accepts property of another for a particular purpose

bailee policy an inland marine policy designed to cover loss of or damage to property of others in the bailee's care

bailment a relationship where one party (the bailee) accepts property of another (the bailor) for a particular purpose

bailor the party in a bailment relationship that owns the property

coverage territory the United States, its territories and possessions, Canada, and Puerto Rico

direct damage coverage one of two ways to write bailee coverage; with this option, coverage applies regardless of whether the bailee is legally liable for the loss

floater a term used to describe many inland marine forms because coverage is not location-specific and applies to personal property anywhere in the coverage territory

inland marine coverage a form of property coverage that developed from the original ocean marine policies; most inland marine policies are designed to cover exposures that have an element of mobility or a relationship to transportation

legal liability coverage one of two ways to write bailee coverage; with this option, coverage applies only if the bailee is legally liable for the loss, e.g., the bailee is negligent

loss to parts the value of a lost or damaged part of an item that consists of several parts when it is complete is based on the value of only the lost or damaged part or the cost to repair or replace it

1 *Some terms appear in multiple inland marine policies. Unless there is a significant difference in the definition between policy forms, the term appears only once in the glossary. In cases where it is common for an insurer to define terms in a significantly different way, the name of the form in which a definition appears has been included.*

no benefit to bailee a clause in a property policy that reinforces the insurer's right to subrogate against a bailee after having paid a claim

pair or set the value of a lost or damaged article which is part of a pair or set is based on a reasonable proportion of the value of the entire pair or set

pollutant any solid, liquid, gaseous, thermal, or radioactive irritant or contaminant, including acids, alkalis, chemicals, fumes, smoke, soot, vapor, and waste AND electrical or magnetic emissions, whether visible or invisible, and sound emissions

schedule of coverages describes the covered premises and property and indicates the policy limits and deductible

specified perils (as defined in AAIS Miscellaneous Bailee Processor Floater IM 7501 04 04) aircraft; civil commotion; explosion; falling objects; fire; hail; leakage from fire extinguishing equipment; lightning; riot; sinkhole collapse; smoke; sonic boom; vandalism; vehicles; volcanic action; water damage; weight of ice, snow, or sleet; and windstorm

voluntary parting voluntary parting with title to or possession of any property because of any fraudulent scheme, trick, or false pretense

Part 2 – Builders Risk and Installation Floater

additional construction expenses (as defined in AAIS Delay in Completion Coverage Part Includes Rental Income and Income Coverage IM 7079 07 20) the following expenses over and above those expenses that would have been incurred had there been no delay period: advertising, design fees, financing, lease administration, professional fees, permit fees

- **advertising** additional advertising, public relations, and promotional expenses
- **design fees** additional fees for architects, interior designers, consultants, and other technical advisors, and engineers
- **financing** the following additional cost of financing: fees for letters of credit and trusts, commissions and loan fees incurred in rearranging financing
- **lease administration** the cost of administrative expenses and commissions that result from the renegotiation of leases
- **professional fees** additional fees for accountants and attorneys
- **permit fees** additional fees for renewing or replacing construction permits or other licenses and permits necessary to continue construction

additional installation expenses (as defined in AAIS Delay in Completion Coverage Part Installation Floater Coverage IM 7125 08 10) includes design fees, financing, lease administration, professional fees, and permit fees

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additional soft costs (as defined in AAIS Delay in Completion Coverage Part Includes Rental Income and Income Coverage IM 7079 07 20) the following expenses over and above those expenses that would have been incurred had there been no delay period: interest payments, realty taxes, lease expenses, insurance premiums

- **interest payments** additional interest payments on money borrowed to finance construction, remodeling, renovation, or repair including increased interest payments due to a rise in interest rates
- **realty taxes** additional realty taxes and other assessments the named insured incurs for the period that construction has been extended beyond the projected completion date
- **lease expenses** the additional cost to extend leases for construction equipment and temporary office space
- **insurance premiums** the additional cost of insurance premiums necessary to renew or extend insurance coverage

additional soft costs (as defined in AAIS Delay in Completion Coverage Part Installation Floater Coverage IM 7125 08 10) includes interest payments, realty taxes, lease expenses, and insurance premiums

builders risk policy an inland marine policy written to cover buildings or structures under construction, or in the course of renovation or rehabilitation

buildings or structures (as defined in Builders' Risk Coverage Scheduled Jobsite Form Comprehensive Form IM 7050 07 20) buildings, structures, materials, and supplies that will become a permanent part of the buildings or the structures, and foundations, excavations, grading, filling, attachments, permanent fencing, and other permanent fixtures

cold testing (as defined in AAIS Testing and Commissioning Coverage IM 7114 02 11) the checking of the component parts of equipment or machinery by mechanical, electrical, hydrostatic, or other forms of testing under dry run conditions

completed value form (builders risk definition) one way to structure a builders risk policy; usually written to cover a single project; the limit of insurance chosen is the value of the completed project plus any other property to be insured

commissioning (as defined in AAIS Testing and Commissioning Coverage IM 7114 02 11) the operation of equipment or machinery with feedstock or other materials for processing under production conditions for the purposes of attaining specification requirements or for training operational personnel

contract penalties penalties for noncompliance with contract provisions faced by contractors who cannot complete a project on time

debris removal the costs for the demolition, clearing, and removal of debris of covered property if such debris results from a covered peril

delay an interruption in the construction, erection, or fabrication of buildings or structures caused by a covered peril

delay period the period the completion of the construction, erection, or fabrication of covered buildings or structures is delayed because of direct physical loss or damage caused by a covered peril

earth movement the movement of the ground, soil, sediments, substrates, or strata whether the movement is caused by an act of nature or is manmade

emergency removal expenses expenses to move or store property to protect it from damage by a covered cause of loss threatening the project site

expediting expenses additional expenses to get the project back on track so that it can be finished by the original completion date in the contract

flood an overflowing or inundation by water of an area that was previously and normally dry or not covered by water, whether caused artificially or naturally, by human or animal forces, or by an act of nature

fraud and deceit theft of covered property when the insured is fraudulently induced to part with the property

hot testing (as defined in the AAIS Testing and Commissioning Coverage IM 7114 02 11) the checking of the component parts of equipment or machinery under load or operational conditions

income coverage covers the actual loss of net income (net profit or loss before income taxes) that would have been earned or incurred and the continued operating expenses normally incurred by the business

installation floater an inland marine policy written to cover materials or equipment to be installed in an existing building or structure or to cover a particular aspect of a project

installation project (as defined in AAIS Installation Floater Coverage IM 7100 08 10) an installation or construction project including but not limited to a repair or maintenance project that involves the installation, construction, or rigging of materials, supplies, fixtures, machinery, or equipment

jobsite (as defined in AAIS Installation Floater Coverage IM 7100 08 10) any location, project, or work site where the named insured is involved in the installation, construction, or rigging of materials, supplies, fixtures, machinery, or equipment

non-reporting form (installation floater) one way to structure an installation floater; can be written to cover one scheduled project or numerous unscheduled projects

rental income coverage covers the actual loss of rental income incurred during the delay period

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replacement cost (as defined in AAIS Builders' Risk Coverage Scheduled Jobsite Form Comprehensive Form IM 7050 07 20) necessary and reasonable costs of materials and labor to repair or replace, without deduction for depreciation, damaged property, including overhead and profit and other related construction costs and expenses

reporting form (builders risk) one way to structure a builders risk policy; written to cover multiple projects; the policy will typically have an overall catastrophe or occurrence limit and a sublimit for each project

reporting form (installation floater) one way to structure an installation floater that is written to cover multiple projects; the insured is required to make periodic reports of the receipts earned from installation projects

reward amount paid to an eligible person for information leading to the arrest and conviction of anyone committing arson, theft, or vandalism

sewer backup water or waterborne material that backs up, overflows, or is discharged through a sewer or drain, sump, or septic tank; includes water or waterborne material below the surface of the ground

specified perils (as defined in AAIS Builders' Risk Coverage Scheduled Jobsite Form Comprehensive Form IM 7050 07 20) aircraft; civil commotion; explosion; falling objects; fire; hail; leakage from fire extinguishing equipment; lightning; riot; "sinkhole collapse"; smoke; sonic boom; vandalism; vehicles; "volcanic action"; water damage; weight of ice, snow, or sleet; and windstorm

subcontractors of every tier this phrase is intended to include sub-contractors, sub-sub-contractors, etc.

testing (as defined in AAIS Testing Endorsement IM 7076 01 12) startup, performance, stress, pressure, or overload testing of materials, supplies, machinery, fixtures, and equipment that will become a permanent part of a covered building or structure

Part 3 – Contractors Equipment

agreed amount the insured and the insurer agree on the value of the property at the time the policy is written; should there be a total loss to the equipment, the agreed amount will be paid

blanket contractors equipment policy a policy that does not include specific limits for the items to be insured; there is a single catastrophe limit and, usually, a maximum per item limit

contractors' equipment (as defined in AAIS Contractors' Equipment Coverage IM 7000 04 04) machinery, equipment, and tools of a mobile nature that the named insured uses in its contracting, installation, erection, repair, or moving operations or projects

contractors equipment policy a policy that covers tools and equipment a contractor uses to complete a project—the policy can also be written to cover equipment for other types of businesses

earnings net income (net profit or loss before income taxes) that would have been earned or incurred and continuing operating expenses normally incurred by the business

restoration period the time it should reasonably take to resume business to a similar level starting from the date of a physical loss of or damage to covered contractors' equipment that is caused by a covered peril and ending on the date the property should be repaired or replaced

scheduled contractors equipment policy a policy where each item to be insured is covered up to a specific limit

weight of load the weight of the load, under the operating conditions at the time of a loss, exceeds the capacity that the equipment is designed to lift

Part 4 – Transportation

bill of lading a contract that evidences a carrier's receipt of the goods to be shipped and which outlines the agreed upon terms for shipping the goods

carrier the party that provides the transportation

carrier for hire (as defined in AAIS Transportation Coverage IM 7250 04 04) any one vehicle, truck, trailer, semitrailer, or combination of these pulled by one power unit operated by a carrier for hire

common carrier provides transportation for hire to the public

contract carrier delivers goods for specific shippers with which it has a contract

private carrier transport their own property on their own vehicle

owned vehicle (as defined in AAIS Transportation Coverage IM 7250 04 04) any one vehicle, truck, trailer, semitrailer, or combination of these pulled by one power unit owned or leased by the named insured and operated by the named insured

owner the party that holds title to the property being shipped

perishable stock property preserved and maintained under controlled conditions and susceptible to loss or damage if the controlled conditions change

released bill of lading limits the carrier's responsibility to the value on the bill of lading

shipper the party that arranges for goods to enter the course of transit and is often the same as the owner

specified perils (as defined in AAIS Transportation Coverage IM 7250 04 04) fire; lightning; windstorm; hail; collision, overturn, or derailment of a transporting conveyance; collapse of a bridge or culvert; theft

spoilage any detrimental change in physical state of perishable stock

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terminal a building where covered property is transferred between vehicles or between vehicles and other transporting conveyances

transit the shipment of covered property that begins at the point of shipment to a specific destination and ends upon acceptance of the goods by or on behalf of the consignee at the specified destination; includes the ordinary reasonable and necessary stops, interruptions, delays, or transfers incidental to the route and method of shipment, including rest periods taken by the driver

transportation policy a policy written to cover an insured's cargo shipments during the policy term when the cargo is transported by carriers for hire, railroads, airlines, or vehicles owned by the named insured

uniform bill of lading the shipper declares a value for the property being shipped; in the event of a loss to the cargo, the shipper can recover the declared value of the goods being shipped

Section 2: Employment Practices Liability

actual termination employment is involuntarily terminated

Americans with Disabilities Act (ADA) a federal law that prohibits discrimination against people with disabilities; applies to several areas, including employment and public accommodations

biometric identifiers data generated by characteristics such as fingerprints and facial scans; used to monitor employees, to restrict access to secure areas, and to log into certain online systems

claim (as defined in Employment-Related Practices Liability Coverage Form EP 00 01 11 09) a suit or demand made by or for a current, former, or prospective employee for damages because of an alleged wrongful act

consent to settle/hammer clause a clause in a EPLI policy that makes the insured responsible for some portion of defense costs and claims paid if the insured does not consent to a claim settlement

constructive termination—aka constructive discharge an employer, instead of firing an employee, makes the working conditions unbearable so that the employee resigns

discrimination violation of a person's civil rights with respect to certain characteristics, many of which are protected classes under various statutes

employee (as defined in Employment-Related Practices Liability Coverage Form EP 00 01 11 09) employee includes a leased worker and a temporary worker, but does not include an independent contractor

employment-at-will an employer can terminate employment for any legal reason without proving a just cause

extended reporting period in a claims-made policy, an additional period of time during which claims can be made, triggering coverage under the policy

Fair Labor Standards Act (FLSA) a federal law that establishes minimum wage, overtime pay, recordkeeping, and youth employment standards affecting employees in the private sector and in federal, state, and local governments

hostile environment (sexual harassment) unwelcome sexual conduct that unreasonably interferes with an individual's job performance or creates an intimidating, hostile, or offensive working environment

immigration practices claim claim alleging violations of the Immigration Reform Control Act of 1986 or similar laws or regulations

prior or pending litigation (PPL) date in a claims-made policy, there is no coverage for claims that were first made against the insured prior to the PPL date

quid pro quo (sexual harassment) submission to or rejection of unwelcome sexual conduct by an individual is used as the basis for employment decisions affecting such individual

retaliation an employer fires an employee or takes any other type of adverse action against an employee for engaging in a protected activity

retroactive date in a claims-made policy, the date on or after which the covered act must occur for coverage to apply

spousal liability an insured's spouse is covered when named in a suit alleging a wrongful act on the part of an insured

Age Discrimination in Employment Act of 1967 (ADEA) federal law that, along with its amendments, prohibits employment discrimination against persons 40 years of age or older

third-party liability coverage covers claims for discrimination and/or harassment made by certain individuals who are not employees

Title VII of the Civil Rights Act of 1964 (Title VII) federal law that, along with its amendments, prohibits employment discrimination based on race, color, religion, sex, and national origin

tort a civil wrong that does not involve a breach of contract

website accessibility suits discrimination claims made by those with a disability who are unable to use the features of a company's website

workplace violence acts involving deadly force or the threat of deadly force on the insured's premises

wrongful act a list of employment-related offenses covered by the EPLI policy

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Section 3: Crime Coverages and Endorsements

authorized person certain individuals within the insured's organization with authority to act upon change of account requests or direct others to act upon such requests, or to issue transfer instructions or direct others to issue such instructions

change of account request an instruction received by the insured directing the insured to change a client's or vendor's bank account information or wire transfer instructions

client any natural person or entity to whom the named insured provides goods or services in exchange for a fee or pursuant to a written agreement

computer program a set of related electronic instructions which direct the operation and function of a computer or devices connected to it, which enables the computer or devices to receive, process, store, or send electronic data

computer system computers including peripheral components, software, and related telecommunications networks used with electronic data; the system must be the insured's or, under certain conditions, an employee's or a third party's

counterfeit money an imitation of money which is intended to deceive and to be taken as genuine

custodian the named insured, its partners, LLC members, or employees who have care and custody of property inside the insured's premises

discover when a designated person first becomes aware of facts that would cause a reasonable person to assume a loss has occurred OR when a designated person receives notice of a claim alleging that the insured is liable to a third party

designated agent an agent acting in a designated capacity appointed in writing by the insured

designated person certain individuals within the organization including an insurance risk manager, partner, LLC member or manager, officer, and others

Discovery Form crime form that covers occurrences that place at any time and are discovered during the policy period or the extended period to discover loss

electronic data information, facts, images, or sounds stored as or on, created or used on, or transmitted to or from computer software on data storage devices

employee natural persons whom the insured compensates and has the right to direct or control along with others specifically described; e.g., former employees retained as consultants and guest students and interns

Employee Retirement Income Security Act of 1974 (ERISA) federal law that sets minimum standards for most voluntarily established retirement and health plans in private industry to provide protection for individuals in these plans

ERISA employee benefit plan a welfare or pension benefit plan subject to ERISA (Employee Retirement Income Security Act of 1974) and its amendments

ERISA plan official an administrator, fiduciary, director, trustee, manager, or employee of an ERISA employee benefit plan, or a director, trustee, or employee of an insured sponsoring an ERISA employee benefit plan, while that person is engaged in handling plan assets

extended period to discover loss the period of time after policy expiration during which a loss can be discovered in order to trigger crime coverage

financial institution (for Computer And Funds Transfer Fraud coverage) a bank or similar depository institution; an insurance company; or a stock brokerage firm or investment company

financial institution premises the interior of that portion of any building occupied by a financial institution

forgery the signing of the name of another person or entity with intent to deceive

fraud or dishonesty larceny, theft, embezzlement, forgery, misappropriation, wrongful abstraction, wrongful conversion, willful misapplication, or other fraudulent or dishonest acts

loss sustained form crime form that covers occurrences during the policy period that are discovered during the policy period or the extended period to discover loss

messenger the named insured, its relatives, partners, LLC members, or employees while having care and custody of property outside the insured's premises

money currency, travelers checks and money orders held for sale, and deposits in a financial institution

occurrence (for Employee Theft coverage) an individual act or a series of acts committed by an employee alone or in collusion with others

other property tangible property other than money and securities

premises the interior of that portion of any building occupied by the insured

retroactive date in an endorsed Discovery Form crime policy, the date after which the occurrence must take place

robbery the unlawful taking of property by causing or threatening to cause bodily harm; includes a situation where the person with the property witnessed an unlawful act committed by the criminal

safe burglary the unlawful taking of property from within a locked safe or vault by someone who unlawfully entered the safe or vault as evidenced by signs of forcible entry; includes someone removing the safe or vault from inside the insured's premises

securities negotiable and non-negotiable instruments that represent money or property

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theft the unlawful taking of property to the deprivation of the Insured—with respect to Employee Theft Of Clients' Property coverage, the unlawful taking of property to the deprivation of a client

transfer account an account maintained by the insured at a financial institution

transfer instruction (for Computer And Funds Transfer Fraud coverage) an instruction received by a financial institution which directs the financial institution to transfer, pay, or deliver money or securities from the insured's transfer account to another beyond the insured's control

transfer instruction (for Fraudulent Impersonation coverage) an instruction received by the insured directing the insured to transfer, pay, or deliver money or securities to another beyond the insured's control

vendor one that provides goods or services to the named insured pursuant to a written agreement

Section 4: Cyber Exposures and Coverage

annual aggregate maximum amount a policy will pay during the policy period regardless of the number of losses or insuring agreements

copyright exclusive legal right given to the originator or an assignee to print, publish, perform, film or record literary, artistic, or musical material, and to authorize others to do the same

cyber extortion demanding money by threatening to disable the operations of a business or compromise confidential data

denial of service (DoS) continual attack on a website or e-commerce portal through the use of a single computer to purposefully disrupt services

distributed denial of service (DDoS) continual attack on a website or e-commerce portal using multiple computers to purposefully disrupt services

e-commerce business transactions completed through the internet

fraudulent instruction (social engineering) unauthorized communication where one party impersonates another to gain access to information, property, or money

hammer clause clause that requires the insured's consent to settle a loss; if the insured refuses consent, all additional expenses for defense and additional judgment is the responsibility of the insured; commonly referred to as a "hard hammer" clause, policies with consent clauses, which make the insured responsible for a percentage of those expenses, are said to have "soft hammer" or "velvet hammer" clauses

intellectual property rights any and all rights associated with intangible assets owned by a person or company. This includes non-physical property such as patents, domain names, inventions moral rights, database rights, service marks, trademarks, tradenames, and others

internet of things (IoT) any device connected to the internet that can send and/or receive data

PCI DSS Payment Card Industry's Data Security Standard; a widely accepted set of policies and procedures intended to optimize the security of credit, debit, and cash transactions and protect cardholders against misuse of personal information

point of sale (PoS) devices that are used in stores to transact credit and debit card payments for good and services

ransomware malicious software; designed to block access to a computer system until a sum of money is paid

severability clause in the insurance policy that states the coverage applies to each insured individually as if they were the only insured; provision does not apply to coverage limits

Section 5: Commercial Excess/Umbrella Coverages[2]

bodily injury bodily injury, disability, sickness, or disease sustained by a person, including death resulting from any of these at any time; includes mental anguish or other mental injury resulting from bodily injury

buffer layer coverage purchased to fill the gap between an underlying policy and the underlying requirement of the excess liability policy

commercial umbrella liability policy a type of excess liability policy that drops down to provide primary coverage when its coverage is broader than that of underlying policies

concurrent policies policies that have the same effective and expiration dates

coverage territory anywhere in the world with the exception of any country or jurisdiction which is subject to trade or other economic sanction or embargo by the United States of America

dual insuring agreements (bifurcated forms) umbrella policies that have two insuring agreements

follow form excess liability policies excess liability policies that mirror the terms and conditions of the underlying coverage forms

indemnify form in the event of a covered loss, the insured investigates the claim, provides defense, negotiates any settlement, and pays any judgments or settlements—the insurer reimburses the insured for these amounts

2 *Definitions found in the policy are based on ISO's Commercial Liability Umbrella Coverage Form CU 00 01 04 13*

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layering a technique for using multiple excess liability policies to provide the required limits

nonconcurrency language/endorsement language that is added to the excess liability policy to remove any concurrency requirement in the policy

pay on behalf of form in the event of a covered loss, the insurer investigates the claim, provides defense, negotiates any settlement, and pays any judgments or settlements

property damage physical injury to tangible property, including all resulting loss of use AND loss of use of tangible property that is not physically injured

quota share two or more insurers split coverage in one layer

retained limit the available limits of underlying insurance scheduled in the Declarations or the self-insured retention, whichever applies

self-insured retention (SIR) the dollar amount the named insured is responsible for when the commercial umbrella provides coverage that is broader than the underlying policies

singular insuring agreement excess liability or umbrella policies that have only one insuring agreement

stand alone excess liability policies excess liability policies that contain their own insuring agreements and terms and conditions which are separate from the underlying policies

underlying insurance policies of insurance listed in the Declarations under the schedule of underlying insurance; the coverage the insured is required to maintain

ultimate net loss the total sum, after reduction for recoveries or salvages collectible, that the insured becomes legally obligated to pay as damages

unimpaired aggregate the aggregate limit of an underlying policy that has not been reduced by the payment of claims