



STUDENT LEARNING GUIDE

Commercial Property and Casualty Insurance

TEACHER'S EDITION

UNIT 1 FUNDAMENTALS OF COMMERCIAL PROPERTY**UNIT PREVIEW**

1. Read through **UNCOVERING THE LEARNING OBJECTIVE**.
2. Read the **Insurance and Business Terms** for this unit. Which terms are you already familiar with? Place a star next to each term you already know. Which terms are new to you?
3. Answer the **Guiding Questions**.

Think of three possible misconceptions or assumptions you have about the learning objective.

UNIT 1 FUNDAMENTALS OF COMMERCIAL PROPERTY

UNCOVERING THE LEARNING OBJECTIVE

Learning Objective: You will be able to explain to a client the types of commercial property exposed to loss, insurable interest, direct and indirect loss, property values, and coinsurance.

Insurance and Business Terms:

- **Coinsurance:** the percentage of the value of the property that a policyholder is required to insure.
- **Commercial Property Insurance:** protects commercial property from perils.
- **Commercial Casualty Insurance:** protection to address loss from injuries to people and/or damage to their properties and the legal liabilities arising from these accidents.
- **Direct and indirect loss:** direct loss is due to direct damage to property as opposed to time element or other indirect losses.
- **Insurable interest:** a person's financial interest in an insured property.
- **Property values:** this is coverage for any belongings that have been stolen or damaged.
- **Real and Business property:** real property is the land and what is on it versus business property can be moved or not attached to real property.

Guiding Questions:

1. What is the difference between commercial casualty insurance and commercial business insurance?
Commercial casualty covers loss from injuries to people and/or damage to their property and legal liabilities whereas, commercial business covers perils that could damage the buildings.
2. What does the Declarations Page of the Commercial Business Property Policy outline?
This outlines the rights and responsibilities of the insured concerning the Commercial Business Property Policy.
3. What qualifies as a business income loss?
Actual loss of business income sustained during a period of restoration.

LESSON 1.1 FUNDAMENTALS OF COMMERCIAL PROPERTY INSURANCE

NOTES GUIDE

Before today's lesson, take time to consider the differences between **property** and **casualty**.

In this lesson, we'll begin discussing the fundamentals of insuring business property. Let's begin by taking a few minutes to see what you already know.

What types of property might a business own that could be subject to loss?

Student responses may vary but should include answers such as building; furniture; equipment; office supplies; inventory.

What is the difference between real property and business personal property?

Real property is: *land and the things permanently attached to the land. This could include the buildings, other structures, and outdoor fixtures (like fences). (0:54)*

Business personal property is: *items, owned by the business, that are free-standing and easily moveable. (2:11, 2:59)*

Who can purchase a commercial property insurance policy?

The person wishing to purchase a commercial property policy must have an insurable interest.

What is an "insurable interest?" *(3:10)*

An insurable interest is a financial stake or an equity in the property at the time of the loss.

LESSON 1.1 FUNDAMENTALS OF COMMERCIAL PROPERTY INSURANCE**Five Valuation Methods (5:22)**

1. Actual Cash Value (ACV) is *the replacement cost minus depreciation. (5:27)*
2. Replacement Cost is *the actual amount to replace with materials of like kind and quality (6:28)*
3. Functional Replacement Cost is used when *replacement of the lost property is not desired. (6:52)*
4. The Selling Price Clause is for *stock (inventory) sold but not delivered (7:58)*
5. Value of Tenants Improvements and Betterments is the value of *changes that tenants make to the interior of a building to suit their purposes. (8:39)*

LESSON 1.1 FUNDAMENTALS OF COMMERCIAL PROPERTY INSURANCE

ACTIVITY: DETERMINING THE LOSS

Randy's BBQ Restaurant suffered a loss due to a fire during the early morning hours. Several items of business personal property in the kitchen and restaurant were destroyed. Randy knew that he would pay a higher premium for Replacement Cost coverage on the business personal property when he insured the restaurant, so he opted for Actual Cash Value coverage. By calculating the depreciation of the items in the table below, you will determine the ACV loss amount.

Business Personal Property:

$$\text{DEPRECIATION} = \text{AGE OF PROPERTY AT TIME OF LOSS} \div \text{ESTIMATED LIFE OF THE PROPERTY}$$

$$\text{ACTUAL CASH VALUE} = \text{REPLACEMENT COST} - \text{DEPRECIATION}$$

Property	Estimated Life	Age at Loss	Current Replacement Cost	Depreciation %	Depreciation Amount	ACV
Table	8 years	1 year	\$129	.125	\$16.13	\$112.87
Chair	6 years	3 years	\$200	.50	\$100	\$100.00
Refrigerator	10 years	7 years	\$2,000	.70	\$1,400	\$600.00
BBQ Sauce	1 year	3 months	\$15	.25	\$3.75	\$11.25
Payment System	4 years	2 years	\$500	.50	\$250	\$250.00
Dishes (set)	7 years	4 years	\$60	.57	\$34.20	\$25.80

LESSON 1.1 FUNDAMENTALS OF COMMERCIAL PROPERTY INSURANCE**ACTIVITY: DETERMINING THE LOSS (continued)****Scenario:**

Randy has replacement cost coverage on his building, with an 80% coinsurance clause. The building is valued at \$100,000 and suffered a \$10,000 loss. Randy carries \$85,000 of insurance coverage on the building. By calculating the coinsurance requirement, you will determine how much insurance is required.

$$\text{Coinsurance requirement} = \text{Value of building} \times \text{coinsurance percentage}$$

What is the amount of insurance required based on 80% coinsurance?

\$80,000 (100,000 x .80)

Did Randy meet the coinsurance clause requirement?

Yes, he carried \$85,000 in coverage.

Will insurance cover the total loss of the claim? Why or why not?

Yes, because Randy satisfied the 80% coinsurance clause.

What if Randy only carried \$50,000 of coverage on the building?

A penalty is applied because he did not satisfy the coinsurance clause.

LESSON 1.2 COMMERCIAL PROPERTY VALUES**NOTES GUIDE**

In this lesson, you will learn to identify the ways that commercial property insurance policies value properties as “scheduled” or “blanket,” and how to provide coverage for fluctuating business personal property values.

Describe **commercial property coverage**. (0:30)

It is a way of writing property insurance that covers one location, or one type of property, where a fixed amount of insurance applies to each insured item.

How is scheduled insurance different? (0:50)

*Scheduled insurance is used for **more than one** location, and for different categories of property.*

What is blanket insurance? (1:49)

Blanket insurance is a different method of setting values where one limit of insurance applies to two or more types of property or different locations of property.

At some types of properties, it may be hard to tell which is which. Think of a large church or an office building. What is building property and what is personal property may be hard to determine. Blanketing the building and the personal property together can be used to combine the values into one limit so that no one type of property is underinsured, should there be a loss.

LESSON 1.2 COMMERCIAL PROPERTY VALUES

Describe the **Peak Season Endorsement (CP 12 30)**. (3:57)

The Peak Season Endorsement (CP 12 30) to the Commercial Property Policy automatically increases the insured's business personal property limit for specified periods to adjust to seasonal changes in values.

What types of businesses have definite peak seasons of sales? At what time of year?

Student responses may vary.

Example answer: Recreation-related businesses that rely on weather may have peak seasons of sales. For example: Snow Ski Lodge and Pro Shop would have peak sales in the winter months.

What types of businesses might have their inventories rise and fall dramatically during the year? *Student responses may vary.*

Example answer: Seasonal businesses may inventories which rise and fall dramatically during the year. For example: Christmas tree sales lots would have peak inventories in November and inventories would fall dramatically by the end of December.

The Peak Season Endorsement allows the insured to avoid over-insuring during low-value times of the year and to make sure adequate limits are available during peak seasons.

LESSON 1.2 COMMERCIAL PROPERTY VALUES

Describe **Value Reporting**. (5:20)

Value Reporting is a method designed for businesses that have personal property values that may vary over the course of the year, but the amounts of the fluctuation, and the times in which the fluctuations may occur, are hard to predict.

Value reporting requires the insured to submit reports to the insurance company of their personal property values every month.

LESSON 1.2 COMMERCIAL PROPERTY VALUES

ACTIVITY: EXPLAINING SCHEDULED VS. BLANKET INSURANCE

Use the Notes Guide from Lesson 1.2 to help answer the questions below.

Randy's BBQ Restaurant was doing so well, he decided to open a second location. He sometimes moves personal property between the locations, especially during peak seasons. One of his locations allows for patio seating during the summer months and thus requires moving tables, chairs, and supplies (valued at \$10,000) to accommodate.

Your job is to calculate the Scheduled Limit amounts for each location, and then calculate the Blanket Limit.

Blanket Coverage = Location 1 Scheduled Limits + Location 2 Scheduled Limits

	LOCATION 1	LOCATION 2
Building	\$100,000	\$80,000
Personal Property	\$50,000	\$40,000
Scheduled Limits:	\$150,000	\$120,000
Blanket Coverage:	\$270,000	

You will need to have a conversation with Randy to explain the advantages of blanket coverage: *This can be done in written or video form.*

The advantages are that blanket coverage gives the insured the ability to apply insurance where it is needed when more than one type of property is covered, and when the policy covers personal property at several locations, the insured does not have to worry about fluctuating values between or among locations.

LESSON 1.3 THE COMMERCIAL PROPERTY POLICY

NOTES GUIDE

Today you will learn to explain how the Commercial Property Policy is structured, as well as how to identify key conditions that apply to the named insured on this type of policy.

Describe each of the following:

Common Policy Declarations include: *(0:16)*

- 1. basic information such as the name and address of the individual or the organization that is insured*
- 2. the policy period and a brief description of the business*
- 3. the coverages elected for the business*
- 4. the premium for each coverage*

Common Policy Conditions *outline the rights and responsibilities of the first named insured. (0:48)*

What are some of the policy conditions that apply to the first named insured? *(1:03)*

- The first named insured is responsible for paying the policy premium and is the only person who can make changes or cancel the policy.*
- If the insurer decides to cancel the policy, they must notify the first named insured, and only the first name insured would receive any premium refund.*
- The rights and duties under the policy cannot be transferred without the written consent of the insurance company.*
- The insurance company may review a company's books and records at any time during the term of the policy, and for up to three years after the policy has expired.*
- The insurance company may inspect the covered premises at any time, provide reports on the conditions that are found, and recommend changes.*

LESSON 1.3 THE COMMERCIAL PROPERTY POLICY

In a Commercial Property Policy, in addition to the Common Policy Declarations page, there is a **Commercial Property Coverage Declarations** page. How is this declarations page similar to and different from the Common Policy Declarations page? (3:20)

Similarities	Differences
<ul style="list-style-type: none"> • <i>the named insured</i> • <i>a premises description with the building address</i> • <i>a description of the business</i> • <i>the coverages that are provided</i> • <i>the Limits of Insurance</i> • <i>the Causes of Loss</i> • <i>the coinsurance percentages</i> 	<ul style="list-style-type: none"> • <i>there may be some coverage options for which there is no coverage unless an entry is made on the Declarations page.</i>

What are the coverage options that might appear on the Commercial Property Coverage Declarations page?

Agreed Value: an indication that the insurer and the named insured agree on the value of the property insured. It remains in effect for one year and thus must be re-evaluated and renewed. (4:22)

Inflation Guard: automatically increases the limit of insurance for the property to which it applies to reflect an inflationary increase in the economy. (4:43)

Replacement Cost: indicates that the deduction for depreciation for the covered property will not be applied in the loss settlement process (5:26)

LESSON 1.3 THE COMMERCIAL PROPERTY POLICY

- D. **Legal Action Against Us:** *In order to bring legal action against the insurance company, there must be full compliance with all of the policy terms and conditions. In addition, the legal action must be brought within two years after the date the direct physical loss or damage occurred. (7:41)*
- E. **Liberalization:** *Additional coverage is given to a client under a special situation. If the insurance company adopts a revision that broadens coverage and is not subject to an additional premium charge, then the broadened coverage applies immediately to the policy. In essence, the insured receives additional coverage with no additional premium. (7:58)*
- F. **No Benefit to Bailee:** *The insurance is only for the benefit of the insured. If the insured's property is damaged while in the custody of any other person or organization, the policy only provides coverage for the insured. There is no benefit to a bailee. (8:20)*
- G. **Other Insurance:** *If there is other insurance on the property with another insurance company, the policy will pay only its share of the covered loss or damage, proportionately. (8:53)*
- H. **Policy Period, Coverage Territory:** *Covered losses must occur within the time period shown in the Declarations in order for the policy to respond, and defines the coverage territory as the United States, its territories and possessions, Puerto Rico, and Canada. (9:05)*

LESSON 1.3 THE COMMERCIAL PROPERTY POLICY

ACTIVITY: WHAT ARE THE RIGHTS OF THE INSURANCE COMPANY?

Use the Commercial Property Conditions form to complete this activity.

The insured must comply with certain conditions or requirements in order to obtain coverage under the policy. What rights does the insurance company have under each condition below?

Condition	Rights
If the insured conceals or misrepresents information, or commits fraud	<i>the insurance company has the right to void the policy.</i>
Property is insured under two or more coverages	<i>the insurance company will not pay more than the actual amount of the loss or damage. Will not double-compensate.</i>
Other Insurance	<i>the policy will only pay its share of the covered loss or damage proportionately.</i>
If the loss occurred prior to the policy starting, or after it expired	<i>the policy will not respond if the loss did not occur within the policy period.</i>
The insured party of the BBQ restaurant wishes the insurance payment to be written to his sister in London.	<i>the policy will not allow a person or organization other than you to benefit from the insurance.</i>

LESSON 1.4 BUILDING AND PERSONAL PROPERTY COVERAGE FORM

NOTES GUIDE

This lesson will cover three major concepts:

1. Identify the types of property covered and not covered by the Building and Personal Property Coverage form.
2. Describe the additional coverages and coverage extensions provided by the form.
3. Explain how vacancy affects coverage and loss payment.

Describe the property covered by the Building and Personal Property Coverage Form.

The Building and Personal Property Coverage Form provides property coverage for buildings and/or business personal property.

How does the policy define the term **building**? (1:35)

The building or structure described in the Declarations, including any completed additions, fixtures, permanently installed machinery and equipment, and owned personal property used to service or maintain the building such as outdoor furniture, floor coverings, and refrigerators.

There are items included in the definition of building that can be insured under the Building and Personal Property Coverage Form, provided these items are not covered by other insurance. They include: (2:00)

Materials, equipment, supplies, and temporary structures within one hundred feet of the described premises that are being used for making additions or repairs to the insured building or structure.

LESSON 1.4 BUILDING AND PERSONAL PROPERTY COVERAGE FORM

Business Personal Property: *The named insured's property located in or on the building or structure described in the Declarations; or in the open (or in a vehicle) within one hundred feet of the building or structure; or within one hundred feet of the described premises—whichever is greater. (2:22)*

Personal Property may include: (2:40)

- _____ *furniture, fixtures, machinery and equipment* _____ other than what is described as "Building."
- _____ *stock or materials* _____ used for making the named insured's products or merchandise held for sale.
- all other personal property _____ *owned* _____ by the named insured and _____ *used* _____ in the named insured's business.
- the _____ *labor, materials, or services* _____ furnished or arranged by the named insured on the personal property of others.
- _____ *Use Interest* _____, which is the value of improvements or betterments made by the tenant that cannot be legally removed.
- _____ *leased property* _____ that the named insured has a contractual obligation to insure.

Another category of property is the personal property of others. (4:15)

Personal Property of Others: *property that belongs to others that is in the named insured's care, custody, or control while in or on a building or structure described in the Declarations, or in the open, or in a vehicle within one hundred feet of the described premises. The covered property can be property the named insured is working on, or stores, or has on consignment, or borrows, or rents, or leases from others.*

LESSON 1.4 BUILDING AND PERSONAL PROPERTY COVERAGE FORM**Property Not Covered**

There are seventeen types of property that are considered Property Not Covered. The lecture explains each one. There are optional coverage endorsements, or separate policies, that may be available for many of them.

Which of them surprise you? Record your thoughts below.

Student responses will vary.

LESSON 1.4 BUILDING AND PERSONAL PROPERTY COVERAGE FORM

Additional Coverages (8:39)

There are six additional coverages contained in the Building and Personal Property Coverage Form. Describe each one and list any additional pertinent information.

Title	Description	Additional Information
Debris Removal (EXAMPLE)	<p>pays the named insured's expense to remove debris of covered property and other debris on the covered property, when caused by or resulting from a covered cause of loss.</p>	<p>The limit of insurance is 25% of the loss and is not an additional amount of insurance.</p>
Preservation of Property (9:29)	<p><i>pays for any direct damage to property removed from the premises or while temporarily located elsewhere</i></p>	<p><i>This coverage extends for thirty days from the time of removal, and it has no effect on the limit.</i></p>
Fire Department Service Charge (9:56)	<p><i>pays up to one thousand dollars for expenses required by a contract or agreement with a fire department to save or protect covered property that is in danger from covered perils.</i></p>	<p><i>This coverage is not subject to any deductible.</i></p>
Pollutant Clean-up and Removal (10:13)	<p><i>provides up to ten thousand dollars for the insured's expense to remove pollutants from land or water at the described premises, if the discharge or release of pollutants is caused by a Covered Cause of Loss and occurs during the policy period.</i></p>	<p><i>The \$10,000 is an annual aggregate limit.</i></p>

LESSON 1.4 BUILDING AND PERSONAL PROPERTY COVERAGE FORM

Additional Coverages (continued)

Title	Description	Additional Information
Increased Cost of Construction <i>(10:34)</i>	<i>provides limited coverage for the increased cost of complying with building codes following damage to an insured building that is insured on a Replacement Cost basis.</i>	<i>Coverage is limited to 5% of the building value, and is subject to a maximum of \$10,000. Note that this Additional Coverage only applies to damaged parts of the building.</i>
Electronic Data Coverage <i>(11:00)</i>	<i>provides for the cost to replace or restore electronic data that has been destroyed or corrupted by a Covered Cause of Loss.</i>	<i>The total available limit for this coverage is \$2,500 in any one policy year.</i>

Coverage Extensions

In addition to the six additional coverages contained in the Building and Personal Property Coverage Form, there are seven Coverage Extensions. The coverage extensions apply only when a coinsurance percentage of at least eighty percent is shown on the Declarations. Each of these extensions provide additional limits of insurance and are not subject to the coinsurance requirements stated in the policy.

On the next page you will match the name of the Coverage Extension to its description.

LESSON 1.4 BUILDING AND PERSONAL PROPERTY COVERAGE FORM

Match the name of the Coverage Extension to its description.

- | | | |
|---------------------|---|--|
| <u> G </u> | Newly Acquired or Constructed Property | A. It pays up to \$10,000. Coverage does not apply to property in or on a vehicle or in their care, custody, or control of the named insured's salespersons, unless at a fair, trade show, or exhibition. The maximum payment for loss or damage is \$10,000. |
| <u> B </u> | Personal Effects And Property Of Others | B. The personal property of the named insured, its management or employees can be added. This does not include coverage for theft, and there is a limit of \$2,500 per described premises. |
| <u> D </u> | Valuable Papers And Records (Other Than Electronic Data) | C. Includes a detached trailer, located within 100 feet of the building or structure described in the Declarations. Coverage is provided up to \$10,000 for 90 days. |
| <u> A </u> | Property Off Premises | D. It only applies to paper. The Coverage Extension pays up to \$2,500 at each described premises for the cost to restore and replace covered items. |
| <u> H </u> | Outdoor Property | E. Under this extension, certain causes of loss will not be covered, such as vandalism, water damage, or theft. For other types of losses the payment would be reduced by 15%. |
| <u> F </u> | Non-owned Detached Trailers | F. Can be covered as personal property if used in the named insured's business. This extension provides a \$5,000 limit of insurance. |
| <u> E </u> | Business Personal Property Temporarily In Portable Storage Units | G. Covered automatically up to a maximum of \$250,000 per building, and newly acquired business personal property at any newly acquired locations is covered for not more than \$100,000 at each building. |
| <u> C </u> | Vacancy As A Loss Condition | H. It provides coverage for specified perils like fire, lightning, explosion, riot or civil commotion;, or aircraft damage to fences, radio and television antennas, including satellite dishes; or trees, shrubs, and plants. The limit is \$1,000 for any one occurrence and does not cover more than \$250 for any one tree, shrub, or plant. For this extension, wind and hail, as well as vehicle damage, are not covered perils. |

LESSON 1.4 BUILDING AND PERSONAL PROPERTY COVERAGE FORM

ACTIVITY: WHAT ARE THE LIMITS AND LOSS PAYMENTS?

Using the Building and Personal Property Coverage Form (Additional Coverages), and what you learned in Lesson 1.4, determine the limit and loss payment for each scenario.

Debris Removal	What is the limit?	How much will be paid?
A building is valued at \$100,000 and insured for that value. It costs \$15,000 for the removal of debris after a covered fire that completely destroys the building.	<i>25%</i>	<i>\$15,000</i> <i>Since the amount it costs to remove the debris is less than $100,000 \times 25\%$, the policy will pay the entire amount.</i>

Preservation of Property	What is the limit?	How much will be paid?
There is a threat of fire damages to the premises. The insured is moving business personal property to an alternate location to protect it from the fire when the item is dropped and damaged.	<i>direct physical loss will be paid if it occurs within 30 days after the property is first moved</i>	<i>the value of the business personal property that was damaged</i>

Increased Cost of Construction	What is the limit?	How much will be paid?
The building where you operate your ice cream business is valued at \$80,000 and was constructed in the 1800s. It recently suffered a loss due to a tornado. Your community has an ordinance which states it must be rebuilt in accordance to current business codes.	<i>5% of the building value, with a maximum of \$10,000</i>	<i>$80,000 \times 5\% =$ <i>\$4,000</i></i>

LESSON 1.4 BUILDING AND PERSONAL PROPERTY COVERAGE FORM

ACTIVITY: WHAT ARE THE LIMITS AND LOSS PAYMENTS? (continued)

Using the Building and Personal Property Coverage Form (**Coverage Extensions**), and what you completed in Lesson 1.4, determine the limit and loss payment for each scenario.

Valuable Papers and Records (other than Electronic Data)	What is the limit?	How much will be paid?
The insured suffers a fire that destroys financial records of customer accounts. Research must be conducted in order to restore the data.	<i>\$2,500</i>	<i>the amount it costs to restore and replace the covered items, up to \$2,500</i>

Outdoor Property	What is the limit?	How much will be paid?
Three beautiful oak trees that are in front of your office building were recently destroyed by a lightning strike. In total, the trees are valued at \$1,500.	<i>\$250 for any one tree, per occurrence, with a limit of \$1000 for any one occurrence</i>	<i>\$750, because 3 trees were damaged in the single occurrence 3 trees x \$250 = \$750</i>

Property Off-Premises	What is the limit?	How much will be paid?
The insured takes her \$2,000 computer to be repaired, and while it is at the repair shop, it is damaged by a covered peril.	<i>\$10,000</i>	<i>The value of the loss (\$2,000), because the loss is less than the limit of the policy</i>

LESSON 1.5 COMMON POLICY STRUCTURES

NOTES GUIDE

In this part of the lesson, we will discuss three concepts. The first is to differentiate between covered Causes of Loss Forms: Basic, Broad, and Special. The second is to explain the Additional Coverage of Collapse, and the third is to identify the three additional coverage extensions included in the Special Causes of Loss Form.

What are some common perils, such as fire? When might a business choose to insure for every possible peril, as opposed to just a few?

Student responses may vary.

Causes of Loss Forms

What do the Causes of Loss Forms provide to the named insured? (1:08)

The separate Causes of Loss Forms provide the named insured with the flexibility to select coverage that addresses the business's particular needs.

There are three types of Causes of Loss Forms. Name each form described below.

_____ Basic _____ Form: provides coverage on a named peril basis; provides coverage (with limitations) for direct physical loss of—or damage to—covered property from fire, lightning, explosion, windstorm and hail, smoke, aircraft and vehicles, riot and civil commotion, vandalism, sprinkler leakage, sinkhole collapse, and volcanic action. For the policy to pay, the insured must demonstrate the loss was caused by one of these perils described in the Causes of Loss Form. (1:37)

_____ Broad _____ Form: provides coverage on a named peril basis. In addition to the eleven named perils in the Basic Form, three additional perils are included: damage caused by falling objects; weight of snow, ice, or sleet; and water damage from leakage of appliances; and also includes Collapse as an Additional Coverage. Otherwise, the terms and conditions mirror the Basic Form. (2:40)

_____ Special _____ Form: provides coverage on an open peril basis. Coverage is provided for direct physical loss to covered property at the described premises for all causes other than those otherwise excluded or limited by the policy language. (3:15)

LESSON 1.5 COMMON POLICY STRUCTURES

Causes of Loss Limitations

There are policy limitations regarding special types of property. Why would the policy limit some special types of property? (5:15)

Some of these limitations are included because coverage is found on other special policies.

Name the seven limitations. (5:23)

- 1) *damage to a steam boiler, pipes, engines, or turbines caused by any condition or event from inside the equipment*
- 2) *hot water boiler damage caused by a condition of the equipment*
- 3) *damage to the interior property resulting from rain, snow, sleet, ice, sand, or dust*
- 4) *theft*
- 5) *if an inventory shortage is the only indication that a loss might have occurred due to theft, there will be no coverage*
- 6) *property transferred by unauthorized instructions*
- 7) *animals, fragile articles, machinery, tools, and equipment off the insured's premises*

LESSON 1.5 COMMON POLICY STRUCTURES

Additional Coverage of Collapse

Because the peril of Collapse is so broad, it's excluded and then given back as an additional coverage so it can be specifically limited.

Coverage Extensions in the Special Causes of Loss Form

Name and describe each coverage extension on the Special Causes of Loss Form. (9:02)

- 1) *Property in Transit: This extension covers the insured's business personal property only while in transit, in a vehicle that the insured owns, leases, or operates.*

- 2) *Water Damage, Other Liquids, Powder, or Molten Material Damage: If the insured sustains a loss due to any covered water damage loss, the insurer will pay the cost to tear out and replace parts of the building to get to the area that caused the damage within the building.*

- 3) *Glass breakage: It includes temporary plate glass, boarding up, and removal of obstructions.*

LESSON 1.5 COMMON POLICY STRUCTURES

View the video on Causes of Loss Forms Exclusions and take notes.

Exclusions that Apply to All Forms

Let's look at the exclusions that are common to all causes of loss forms. Although you may see some exclusions that are familiar, you will also find that some of these exclusions take on a new meaning when applied in a commercial setting.

Describe the exclusions.

a. Any Loss Caused by Ordinance or Law (0:49)

The property insurance policy on the building is designed to replace or repair what the insured had, not what they should have had, according to the law. As a result, the policy excludes costs associated with complying with ordinances or laws. (1:17)

Three Aspects (1:32)

- 1. The value of the undamaged part of the building that is no longer compliant with the law.*
- 2. The cost to demolish the undamaged part of the building and to remove the debris.*
- 3. The increased costs to rebuild the structure to satisfy current codes.*

The insurance policy only pays for what was damaged, so the loss to the undamaged portion of the building wouldn't be covered.

LESSON 1.5 COMMON POLICY STRUCTURES**b. Earth Movement (3:50)**

The policy excludes costs associated with earth movement (earthquake, a landslide, any earth settling or rising, or volcanic eruption). However, damage by sinkholes and damage caused by a fire or explosion following an earthquake are exceptions to this exclusion and therefore would be covered.

c. Governmental Action (4:28)

If the government seizes an insured's property, the loss is not covered, unless the government burns down the insured's building to provide a firebreak for a wildfire.

d. Nuclear Hazard (4:53)

The policy will not pay for damages caused by radioactive sources.

f. War and Military Action (5:06)

Undeclared war, civil war, and other warlike actions taken by a military force are excluded.

e. Loss Due To The Failure Of Utility Services (5:15)

Damages caused by the failure of power, communication services (including internet services), water, or other utility services supplied to the described premises are excluded.

LESSON 1.5 COMMON POLICY STRUCTURES

g. Water (5:53)

Losses by flood, surface water, waves, tides, tidal waves, and overflow of any body of water or its spray, whether driven by wind or not, are not covered.

EXCEPTION: If a fire, an explosion, or sprinkler leakage loss occurs as a result of the water damages that are excluded, the company will pay for the loss caused by the fire, explosion, or sprinkler leakage.

h. Damage Caused by Fungus, Wet Rot, Dry Rot, and Bacteria (7:07)

Damage caused by fungus, wet rot, dry rot and bacteria is excluded. However, limited coverage is available as an additional coverage.

The following exclusions also apply to all three causes of loss forms.

The first is loss or damage, regardless of any other cause or event, caused by **artificially generated electrical current**.

Mechanical breakdown, including rupture or bursting caused by **centrifugal force** is also excluded. For example, if a turbine generator fails when the blades break, the loss would not be covered.

There is also an exclusion for the **explosion of owned or controlled steam boilers**. This peril can cause considerable damage and is separately insured using a Boiler and Machinery policy.

In addition, the **continuous or repeated seepage or leakage of water**, or the presence or condensation of humidity, moisture, or vapor over a period of time of 14 days or more is excluded.

And finally, loss due to the **neglect of the insured** is also excluded.

LESSON 1.5 COMMON POLICY STRUCTURES

Exclusions that Apply Only to the Special Form

Now let's turn our attention to exclusions that are specific to the Special Form. Coverage is excluded for loss or damage caused by:

Special Form Exclusion Chart	
1.	Delay, loss of use, or loss of market
2.	Smoke, vapor, or gas, from agricultural smudging or industrial operations
3.	Wear and tear, rust or other corrosion, decay, deterioration, hidden or latent defect
4.	Smog
5.	Settling or cracking
6.	Insect, bird, or animal infestation
7.	Losses resulting from freezing of plumbing, heating, air conditioning, or other equipment with the exception of fire protection devices, unless the insured has maintained heat in the building or drains the water supply
8.	Dishonest or criminal acts, including theft, by the named insured, employees, temporary employees or leased workers, or anyone else entrusted with the insured's property
9.	Losses to personal property in the open from rain, snow, ice, or sleet
10.	Collapse, discharge, dispersal, seepage, migration, release, or escape of pollutants unless a result of a specified cause of loss
11.	Weather conditions
12.	Acts or decisions including the failure to act or decide of any person, group, organization or governmental entity
13.	Faulty, inadequate or defective planning, zoning, development, surveying, design, specifications, workmanship, repair, construction, or materials used in repairs, construction, or maintenance

As an insurance professional, it is vital for you to understand the coverages available on each Cause of Loss Form, the coverage limitations and extensions that are available, as well as the exclusions.

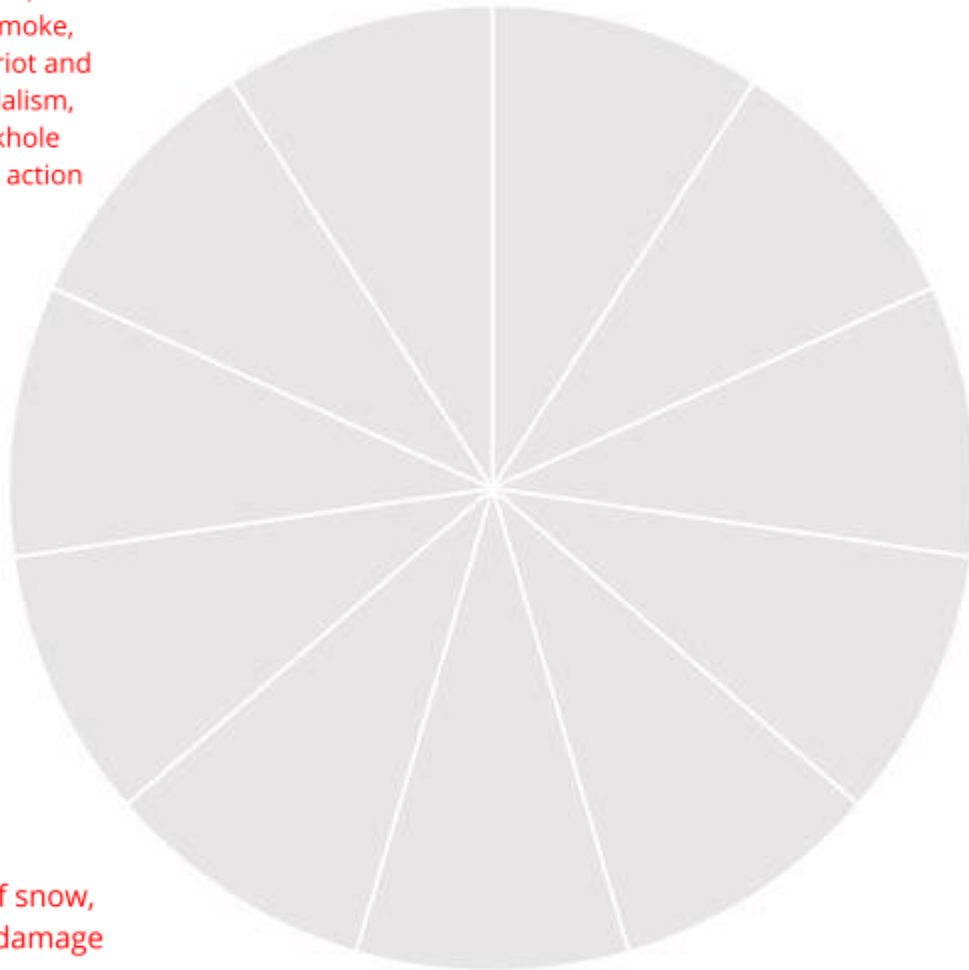
LESSON 1.5 COMMON POLICY STRUCTURES

ACTIVITY: DRAW IT OUT

Using the Causes of Loss (Basic & Broad) Forms or the 1.5 Notes Guide, draw and label the 11 causes of loss (perils) into the pie diagram below. Then write in the space provided the three additional causes of loss that are included in the Broad Form.

fire, lightning, explosion,
windstorm and hail, smoke,
aircraft and vehicles, riot and
civil commotion, vandalism,
sprinkler leakage, sinkhole
collapse, and volcanic action

BASIC



falling objects; weight of snow,
ice, or sleet; and water damage
from leakage of appliances.

BASIC + _____, _____, _____ = BROAD

LESSON 1.6 BASICS OF TIME ELEMENT INSURANCE

NOTES GUIDE

Time Element insurance is also referred to as Business Income and Extra Expense insurance. There are four primary concepts that we will cover in this lesson. The first is listing the requirements for a time element loss to be covered. The remaining concepts focus on defining the terms **business income**, **extra expense**, and **period of restoration**.

Time Element insurance, also referred to as Business Income and Extra Expense insurance, pays business extra expense and lost profits while the business is shut down due to a covered direct property loss. (0:40)

Think of it this way: (0:49)

Type of Insurance	What the insurance protects
property insurance	<i>the physical assets of the business</i>
Business Income insurance	<i>the income of the business</i>
Extra Expense coverage	<i>pays for the extra expenses the business will incur while it is shut down.</i>

Business Income Loss

What qualifies as a business income loss? In order for a business income claim to pay, five elements must be met. (2:25)

1. *There must be direct damage to the property.*
2. *The damage has to be the result of a covered cause of loss.*
3. *The damage must occur at the premises described on the Declarations Page.*
4. *There is a suspension of operations, whether it be total or partial.*
5. *There must be financial loss.*

LESSON 1.6 BASICS OF TIME ELEMENT INSURANCE

The Coverage Form

Define **business income**. (3:23)

Business Income means the net income, or net profit or loss before taxes, that would have been earned or incurred, and continuing normal operating expenses, including payroll.

Define **period of restoration**. (4:23)

The period of restoration starts seventy-two hours after the loss, and it ends when the business operations are restored, restored at a new location, or after a reasonable time to complete repairs or replace the property.

What is **extended business income coverage**? (5:55)

The coverage form provides for the additional loss of business income after the insured resumes normal operations for sixty days.






Define **extra expense**. (6:22)

Extra expense means the necessary expenses incurred during the "period of restoration" that would not have been incurred if there had been no direct physical loss or damage to the property.

LESSON 1.6 BASICS OF TIME ELEMENT INSURANCE

ACTIVITY: CLOSE TO HOME

Using what you learned in Lesson 1.6 about business income loss, complete the following activity. Choose a business which operates in or near where you live and create a loss scenario by filling in the table. All five elements, which are listed below, must be met in order for the loss to be covered under Time Element insurance. *Student responses may vary.*

	<p>What is the name of the business?</p> <p><i>The Furniture Store</i></p>
	<p>What direct physical loss or damage happened to the property?</p> <p><i>Roof damage and broken windows</i></p>
	<p>What was the covered cause of loss?</p> <p><i>Windstorm/Tornado</i></p>
<p>Commercial Package Policy ABC Insurance Company of America Declarations Page</p>	<p>What is the location of the premises as described on the Dec. Page?</p> <p><i>111 East Street, Anytown, USA</i></p>
	<p>What operations were suspended?</p> <p><i>Manufacturing of custom furniture</i></p>
	<p>What was the financial loss? <i>What do you think their income is for one month?</i></p> <p><i>\$25,000</i></p>

LESSON 1.7 TIME ELEMENT INSURANCE

NOTES GUIDE

There are three major concepts that we'll cover in this lesson:

1. Given a description of a business, you will learn how to recommend the most appropriate form of Time Element coverage.
2. Given a loss situation, you will learn how to explain how Extra Expense losses are paid.
3. You will be able to describe the dependent property exposures a business may face.

Before we begin, please pause to consider the importance of time element coverage for everyday Main Street businesses. How would you explain this to a client?

Time Element insurance, also referred to as Business Income and Extra Expense insurance, pays business extra expenses and lost profits while the business is shut down due to a direct covered property loss.

There are two ways to write Business Income insurance. It can be written with coinsurance—the default position of the policy, or without coinsurance, using one of three other options available in the policy. (0:48)

Coinsurance

Coinsurance on a business income policy is similar and different from the way coinsurance works in property insurance. The amount of insurance the client did purchase is compared to the amount of insurance they should have purchased. (1:01)

For business income policies, the coinsurance percentage options available are:

50%, 60%, 70%, 80%, 90%, 100%, 125%

The coinsurance in business income policies is based upon the insured's income and expenses over time. (1:51)

LESSON 1.7 TIME ELEMENT INSURANCE

Coinsurance Calculation

The limit shown on the policy is compared to the sum of 12 months of the business's net income and all operating expenses, including payroll. This figure is multiplied by the coinsurance percentage that is shown on the Declarations Page to determine if a coinsurance penalty applies. (2:17)

As the coinsurance percentage goes up, the rate, or the cost of the insurance per one hundred dollars of limit, goes down. However, although the rate goes down, the risk of penalty goes up. An insured would want to select the highest coinsurance percentage that would not result in a coinsurance penalty. The secret is for the insured to select the limit they need first, then apply the highest, safest coinsurance percentage to the policy. (5:30)

How do you decide whether to select 50%, 60%, 70%, 80%, etc?

Step 1: Select the amount of money needed to pay for a potential business income loss. Be sure to consider your expected "period of restoration," extended business income, and extra expenses. This will become the Limit of Insurance.

Step 2: Calculate the net income plus all operating expenses for a 12-month period. It is important to take into consideration all peak periods and any expected growth. This amount will become the basis of measurement for coinsurance.

Step 3: Divide the result of Step 1 by the result of Step 2. This will give you a reasonably accurate coinsurance choice. If the result is not exactly one of the available choices, round down to the next available percentage.

As you can tell, coinsurance is a great way to provide coverage for your clients, but there are many variables to consider to make sure coverage is appropriate and does not create a scenario that incurs a coinsurance penalty. Let's look at the three alternatives for writing a policy without coinsurance.

LESSON 1.7 TIME ELEMENT INSURANCE

Coinsurance Alternatives

The lecture references these as options, but it is important to note that they are indeed alternatives to coinsurance. There are three alternatives for writing a policy without coinsurance: Maximum Period of Indemnity, Monthly Limit of Indemnity, or Business Income Agreed Value.

Explain each alternative to coinsurance.

1. Maximum Period of Indemnity (7:19)

- *simplest to write because it is entirely time-based and there are no formulas to calculate.*
- *limits the business income and extra expenses coverage to 120 days or until the limit is exhausted, whichever comes first.*
- *seventy-two-hour waiting period.*
- *good for businesses that know operations can be resumed quickly.*

Maximum Period Of Indemnity Example

Limit Of Insurance – \$200,000			
<u>Period of Restoration</u>	<u>Business Income Loss</u>	<u>Extra Expense Loss</u>	<u>Amount Paid</u>
Days 1-120	\$90,000	\$35,000	\$125,000
<u>120 days ends here</u>			
Days 120 +	\$25,000	\$15,000	\$0

2. Monthly Limit of Indemnity (see example on next page) (7:56)

- *limit of coverage must be decided*
- *monthly limit of indemnity must be decided*
- **TEACHER NOTE:** *Explain that this alternative to coinsurance is good for businesses whose revenues and expenses are pretty consistent from month to month.*

Monthly Limit Of Indemnity Example 1:

An insured suffers a loss of Business Income following a fire. The policy has a Limit of Insurance of \$120,000 with a 1/4 fraction shown under the Monthly Limit Of Indemnity in the Declarations. The most paid for loss in each period of 30 consecutive days is \$120,000 times 1/4 equals \$30,000. The period of restoration for this loss is three months and the claim is submitted and paid in the following way:

Time Period	Amount Submitted	Amount Paid
Days 1 – 30	\$40,000	\$30,000
Days 31 – 60	\$20,000	\$20,000
Days 61 – 90	\$30,000	\$30,000
	Total Paid:	\$80,000

A claim for Extra Expense was not submitted

Monthly Limit Of Indemnity Example 2:

The Limit of Insurance is \$120,000. The fraction shown in the Declarations for Monthly Limit Of Indemnity is 1/4. The most paid for loss in each period of 30 consecutive days is \$120,000 x 1/4 = \$30,000. The claim is submitted and paid in the following way:

	Extra Expense Loss	Business Income Loss	Total Loss Submitted	Total Paid
Days 1-30	\$10,000	\$40,000	\$50,000	\$40,000*
Days 31-60	\$5,000	\$20,000	\$25,000	\$25,000
Days 61-90	\$3,000	\$20,000	\$23,000	\$23,000
Days 91-120	\$4,000	\$25,000	\$29,000	\$29,000
Days 121-150	\$7,000	\$30,000	\$37,000	\$3,000**
	\$29,000	\$135,000	\$164,000	\$120,000***

*Business Income Loss limited to \$30,000 because of the consecutive 30-day limitation

**Policy limit has been exhausted at this point

***The remaining \$44,000 is not covered.

The monthly limit of indemnity pays a maximum payment for any thirty consecutive days is shown as a fraction of the business income limit, and is expressed as one-third, one-fourth, or one-sixth. As we just stated, the fraction applies to how much of the total limit is available for each thirty-day period. It has nothing to do with how many months the payments will continue. The monthly limitation applies only to the Business Income loss, and does not apply to Extra Expense.

3. Business Income Agreed Value (9:52)

- typically used for larger, more sophisticated businesses
- suspends the coinsurance clause for twelve months
- requires the insured to complete a business income worksheet at the beginning of each policy period to determine the amount of insurance to be purchased



LESSON 1.7 TIME ELEMENT INSURANCE

Determining How Losses are Paid

There are two things that determine how losses are paid. What are they? (11:00)

1. *the length of the period of restoration*
2. *the percentage of the Extra Expense limit that the insured chooses*

When does the Period of Restoration begin and end? (11:10)

The Period of Restoration begins on the date of the direct physical loss or damage caused by or resulting from any Covered Cause of Loss at the described premises, and it ends on the earlier of the dates when the property at the described premises is repaired and the insured resumes normal operations, or the property should have been repaired.

The second thing that determines how the policy pays is the percentage option of the **Extra Expense limit** the insured chooses. There are three options, each of which have three percentages that represent the part of the extra expense limit available in the first month, then the second month, then the third month, and beyond.

Example:

40/80/100%

Explain what these numbers mean. (11:34)

If the period of restoration is thirty days or less, there would be forty thousand dollars available for the first month's extra expense loss. If the period of the restoration went into the second month, up to eighty thousand would be available to pay the loss. After sixty days, the full limit would be available to pay for the loss.

LESSON 1.7 TIME ELEMENT INSURANCE

Dependent Properties

What is a dependent property? *A dependent property contributes to the insured's income or business production, but is not owned or operated by the insured. (12:35)*

There are four types of dependent properties. (12:43)

A contributor is an entity that delivers materials or services to the insured's business.

The recipient is the entity that accepts an insured's products or services.

The third category of dependent properties is the manufacturer. Sometimes this category of dependent properties makes products for delivery to the insured's customers under contract of sale.

The final category is leaders, or a business that attracts customers to an insured's business.

The **Business Income From Dependent Properties - Limited Form (CP 15 09)** provides coverage for exposures created by dependent properties.

As an insurance professional, you need to be aware of the coverages that are available and how they work in order to properly protect your clients. Unfortunately, many businesses are underinsured when it comes to this exposure, and you can make a big difference by educating your clients.

LESSON 1.7 TIME ELEMENT INSURANCE

ACTIVITY: TIME ELEMENT INSURANCE SCENARIO

Scenario:

Ian's Bicycle Shop sells and repairs bicycles. The shop is covered under a Business Income and Extra Expense Coverage Form. The shop incurs a covered loss and will take one month to reopen.

What normal expenses for operating the business do you think Ian has?

Student responses may vary, but should include items such as: payroll, taxes, insurance, loans

What extra expenses might Ian incur since he and his employees need to relocate to a new space?

Student responses may vary, but should include items such as: rent of temporary space; overtime wages; rent equipment to fix bikes; technology/phones

Coinsurance: Ian's Bicycle Shop is insured for \$80,000 under a Business Income Coverage Form with a 50% coinsurance clause. His net income and operating expenses for 12 months is \$200,000. For the month Ian was closed, his business income loss was \$15,000.

Fill in the chart below with information from the scenario. Then fill in the missing information in the formula to calculate the amount of business income loss.

Amount of Insurance Carried	Coinsurance %	12-month net income (loss amount)
<i>\$80,000</i>	<i>50%</i>	<i>\$200,000</i>

Coinsurance (as a decimal) .50 x loss amount \$200,000 = \$100,000 (amount of insurance required). Remember, coinsurance percentage options are 50%, 60%, 70%, 80%, 90%, 100%, and 125%

Amount of insurance carried = \$80,000 ÷ amount required \$100,000 x loss amount for one month \$15,000 = \$12,000. This is the amount Ian will receive for his business income loss.

UNIT 2 SOURCES AND TRIGGER OF LIABILITY**UNIT PREVIEW**

1. Read through **UNCOVERING THE LEARNING OBJECTIVE**.
2. Read the **Insurance and Business Terms** for this unit. Which terms are you already familiar with? Place a star next to each term you already know. Which terms are new to you?
3. Answer the **Guiding Questions**.
4. Think of three possible misconceptions or assumptions you have about the learning objective.

UNIT 2 SOURCES AND TRIGGER OF LIABILITY

UNCOVERING THE LEARNING OBJECTIVE

Learning Objective: You will be able to explain the sources of liability and what triggers legal liability.

Insurance and Business Terms:

- **Breach of Contract:** Typically excluded in Commercial General Liability insurance.
- **Commercial General Liability (CGL) insurance:** Provides liability coverage for general business risks.
- **CGL Coverage Territory:** Usually defined as the United States of America, its territories, and possessions.
- **CGL Coverage Part A:** Bodily injury and property damage liability.
- **Compensatory Damage:** Money awarded to compensate for damages or incurred loss.
- **“insured contract”:** Coverage in which the “insured” assumes liability of another.
- **Liability Exposures:** Exposures that are covered by the Commercial General Liability Policy.
- **Statutory Liability:** A business can be held liable due to a related law or statute.
- **Trigger of Liability:** An event that must occur before a liability policy can apply.

Guiding Questions:

1. Why is identifying liability exposures important when writing a policy?
Because it is important to write the insurance agreement to cover what the contractor or business actually does.
2. How are compensatory damages determined?
There must be an actual monetary value of losses suffered.
3. What is typically covered under Coverage A of the Commercial Liability Policy?
Coverage A provides coverage to a business for bodily injury, personal injury, or property damage caused by the business.

LESSON 2.1 SOURCES AND TRIGGER OF LIABILITY**NOTES GUIDE**

What does it mean to become legally liable?

Liable means "responsible or answerable in law; or legally obligated."

What are some ways a business could possibly be liable?

Student responses may vary.

Write five examples where a business could become legally responsible for injuries or damages to others.

Student responses may vary.

LESSON 2.1 SOURCES AND TRIGGER OF LIABILITY

Name and describe the eleven major categories of business liability exposures.

Hint: You may want to include an example of the categories that are difficult to understand.

1. Premises Exposure is *liability that arises out of an injury or damage to property because of the ownership, maintenance, or use of that location. If individuals are harmed due to unsafe conditions on the premises, the business can be sued and damages can be awarded to compensate the injured parties. (1:40)*
2. Operations Exposure is *liability that takes place away from the premises of the business and is caused by activities such as construction, processing, or servicing things on someone else's property. (2:53)*
3. Product Liability is *caused by defects in product design, manufacturing, or the failure to sufficiently warn or explain the safe use of the product to consumers. (3:21)*
4. Completed Operations is *the liability that arises out of the injury and/or damage caused by defective or improper workmanship, after the work has been completed. (4:05)*
5. Automobile Liability is *the liability that arises out of the injury and/or damage due to the ownership, maintenance, or use of an auto. (4:59)*
6. Conveyance Liability is *liability that arises out of the injury and/or damage due to the ownership, maintenance, or use of a conveyance such as mobile equipment. (5:54)*

LESSON 2.1 SOURCES AND TRIGGER OF LIABILITY

Define conveyance: *any means of transport (5:57)*

7. Employing Workers is an exposure to liability if *the employer, other employees, or customers are responsible for inflicting an injury. (6:44)*

Note: This liability exposure can involve not only physical injury, but also involve other types of injury to a body. This could include sexual harassment or other forms of workplace harassment such as bullying. This liability exposure also extends to the employer's responsibility for acts that could result in financial harm to the employee.

8. Serving Liquor/Alcohol becomes an exposure to liability if *an obviously intoxicated customer is served more alcohol and causes damage or injury. (8:09)*

9. Environmental Impairment: This type of liability occurs when *the operations or products of a business cause environmental harm. (8:52)*

10. Professional Activities can be an exposure to liability when *professionals make an error while rendering services. (9:29)*

11. Bailee Liability is *the direct result of possessing another's property. Businesses that have custody or control of the property of others have this exposure. (10:44)*

LESSON 2.1 SOURCES AND TRIGGER OF LIABILITY

Liability Triggers

Now that you understand more about liability exposures, let's look at liability triggers.

A liability trigger is *an occurrence or accident that causes a tort, or civil wrong. (11:28)*

Types of Legal Liability (11:50)

1. **Direct Liability** is *when someone is liable as a result of their own conduct.*

Example Trigger: *If I cause an accident while driving my car, I can be held liable for any injuries or damage I cause.*

2. **Vicarious Liability** is *when a person is held liable for the actions of another person.*

Example Trigger: *If a parking attendant at a hotel damages a guest's car, the hotel can be held responsible for their employee's actions. The business, as well as the employee, can be held responsible.*

LESSON 2.1 SOURCES AND TRIGGERS OF LIABILITY

ACTIVITY: IDENTIFY LIABILITY EXPOSURES AND TRIGGERS

Using the Notes Guide from Lesson 2.1, answer each scenario with the liability exposures or triggers.

Scenario	Liability Exposure or Trigger
A company you hired to roof your house accidentally damaged a power line when the forklift they were using hit the wire. What type of liability exposure is this?	<i>Conveyance Liability</i>
Radioactive waste from a local hospital seeps into the ground and contaminates the local water supply. What type of liability exposure is this?	<i>Environmental Impairment</i>
Mitch's Tavern serves John several beers, despite the fact John is only 18. John leaves the Tavern in his car and about five miles down the road he crashes into a tree. A claim is brought against Mitch's Tavern for the bodily injury and property damage. What type of liability exposure is this?	<i>Liquor Liability</i>
A customer becomes injured while shopping at a local grocery store when a cereal display falls on her. A store employee runs to the rescue, but trips and falls on the uneven floor in Aisle 1. What type of liability exposure is this?	<i>Premises</i>
A local florist provides a delivery service within a five-mile radius. One of their drivers gets into an accident while looking at their map app and injures a pedestrian. What type of liability exposure is this?	<i>Automobile</i>
A restaurant employee damages a fur coat one of the guests asked him to hang in the coat closet. The restaurant is held liable for the actions of the employee. What is the type of trigger identified here?	<i>Vicarious liability</i>
The owner of a hotel damages a guest's suitcase while putting it onto the luggage cart. What type of trigger is identified here?	<i>Direct liability</i>

LESSON 2.2 TYPE OF LEGAL LIABILITY AND COVERED DAMAGES

NOTES GUIDE

In this lesson, we will identify types of legal liability and how they can be created, and describe the types of damages that may be covered by a liability insurance policy.

A legal liability is a responsibility or obligation to others which is recognized and enforced by the courts. (0:33)

FIVE MAJOR TYPES OF LEGAL LIABILITY

1. Direct liability
2. Vicarious liability
3. Tort liability
4. Statutory liability
5. Contractual liability

1. Direct Liability is when someone is liable as a result of their own conduct.

2. Vicarious Liability is when a person is held liable for the actions of another person.

3. Tort Liability

Explain the term "**tort.**" *A tort is a civil wrong recognized in our court system. This is in contrast to a criminal wrong.* (1:29)

A tort can arise from an act of negligence, as an intentional tort, or from strict liability. Strict liability is also known as absolute liability.

Negligence: For negligence to occur, four elements must be present: (1:47)

1. *A duty owed to others*
2. *A breach of the duty owed*
3. *Injury or damage*
4. Proximate cause: the existence of a direct connection between the breach and the injury.

LESSON 2.2 TYPE OF LEGAL LIABILITY AND COVERED DAMAGES

Intentional Torts

Define “**intentional tort.**” *A voluntary act, done intentionally, that results in injury or loss to another. (3:04)*

What are some examples of intentional torts? *Student responses may vary*

slander, libel, wrongful entry, wrongful eviction, wrongful detention, copyright and trademark infringement, and other infringements of intellectual property rights.

Strict Liability—also known as **Absolute Liability** (5:19)

Strict liability or Absolute liability is when *a person or business is held to a very high standard of liability under the law due to the nature of their activities.*

Strict liability (Absolute liability) is imposed on those who are doing *dangerous*

things. Because of that, they are held to a higher *legal standard*.

4. STATUTORY LIABILITY

This type of liability is based on *statutory law*. Violations of the many statutory laws that exist expose businesses to statutory liability. Statutory liability can result in statutory damages owed to others, such as compensation for lost time from work, back wages, or the cost of medical treatment. (6:18)

5. CONTRACTUAL LIABILITY

This is the liability arising from a *contract* or agreement. (7:19)

LESSON 2.2 TYPE OF LEGAL LIABILITY AND COVERED DAMAGES

What are compensatory damages? (9:17)

Losses compensated for by the liable person paying a sum of money to the claimant.

Compensatory damages are divided into two specific types of damages. (9:41)

1. Special damages are *specific dollar amounts that cover the costs of medical bills, lost income, rehabilitation expenses, or the repair or replacement of property.*
2. General damages are *subjective dollar amounts that compensate the injured party for intangible losses, such as pain and suffering.*

Along with compensatory damages, **punitive** or **exemplary damages** may be owed.

Punitive damages are *imposed in order to punish a wrongdoer's conduct to deter such conduct in the future, by either the wrongdoer or others.* (10:02)

LESSON 2.2 TYPE OF LEGAL LIABILITY AND COVERED DAMAGES

ACTIVITY: 5 TYPES OF LEGAL LIABILITY

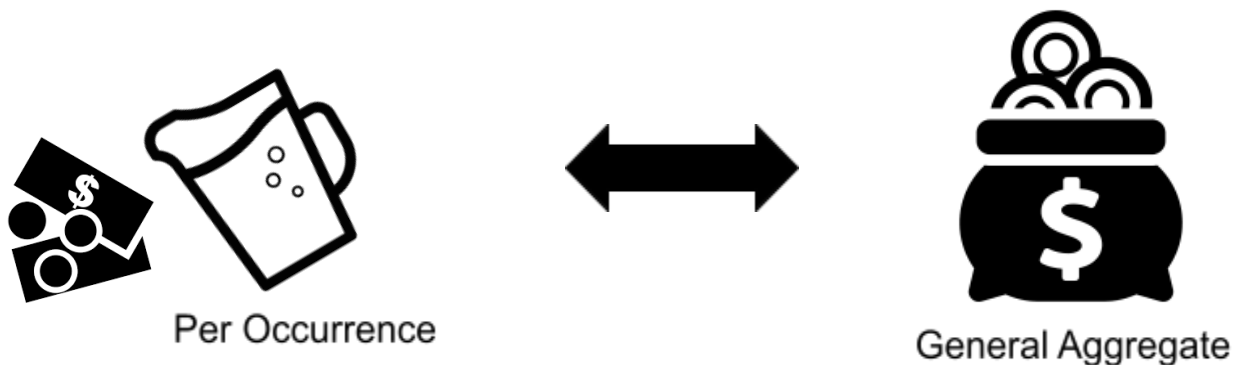
Describe each type of legal liability and explain a situation in which that type of legal liability applies.

Legal Liability	Why Coverage is Important	Situation Where Liability Could Occur
Direct	<i>A business is responsible for their own actions.</i>	<i>Unsafe conditions where repairs are not made or floors are not kept dry.</i>
Vicarious	<i>Behavior of employees or others acting on behalf of the business.</i>	<i>An example would be where someone is driving your company car and injures someone else on the road.</i>
Tort	<i>A civil wrong recognized in a court system.</i>	<i>Such as writing or publishing untrue information about another business.</i>
Statutory	<i>Based on a law enacted by a legislative body.</i>	<i>Employment conditions, wages and treatment of employees.</i>
Contractual	<i>Liability arising from a contract or agreement.</i>	<i>For example, a renter may sign a contract stating they are responsible for the actions of their guests.</i>

LESSON 2.2 TYPE OF LEGAL LIABILITY AND COVERED DAMAGES

LIMITS OF LIABILITY

PER OCCURRENCE: This is the most that is paid for each occurrence, regardless of the number of insureds, claims made, suits, or persons or organizations making claims or bringing suits for any one occurrence. It is the most the insurer pays for damages under Coverage A (Bodily Injury and Property Damage) and Coverage C (Medical Payments). This limit reduces the aggregate.



GENERAL AGGREGATE: This is the most that is paid during the policy period, regardless of the number of claims or persons making the claim. It is applicable to all covered claims other than products and completed operations claims.

Scenario:

A fire truck manufacturing company has a CGL Policy with the following limits.

General Aggregate limit: \$200,000
 Per Occurrence limit: \$100,000
 Medical Expense limit: \$5,000



A customer was injured while exiting the manufacturing plant. They suffered a broken leg, incurring \$5,000 in medical bills, and also filed a liability claim against the insured for \$50,000.

The CGL paid \$5,000 in medical bills.

After paying the claim, what limit remains for this claim under your insured's CGL Coverage A? **\$50,000 (\$100K: \$50K)**

What remains under the general aggregate limit? **\$145,000 (\$200K: \$50K)**

LESSON 2.3 COMMERCIAL GENERAL LIABILITY POLICY STRUCTURE

NOTES GUIDE

What does **CGL** stand for? *Commercial General Liability (0:07)*

A CGL Policy provides protection for *business owners, employees, and others who are engaged in the insured's business. (0:24)*

The CGL Policy has five major sections:

1. **Common Policy Declarations (1:08)**

What do the Common Policy Declarations of an insurance policy show?
the who, what, when, and where, in a broad sense

2. **Common Policy Conditions (2:12)**

What do the Common Policy Conditions explain? *the conditions under which the policy may be cancelled or changed, as well as how audits, inspections, premiums, and assignment of the policy are handled.*

3. **Commercial General Liability Declarations (2:29)**

What does this CGL Declarations page show?

The CGL declarations outline the limits and other specifics of the CGL coverage that applies.

How does this Declarations page differ from the Common Policy Declarations?

The Common Policy Declarations page shows basic information about the insurance package. The CGL Declarations page summarizes the coverages of the CGL portion of the insurance package.

LESSON 2.3 COMMERCIAL GENERAL LIABILITY POLICY STRUCTURE

4. Commercial General Liability coverage form (2:45)

What is the CGL coverage form? *This part of the policy is the “guts” of the contract where most of the important provisions are outlined.*

This coverage part consists of three parts. Describe each part:

A. Coverage A – Bodily Injury and Property Damage Liability (3:28)

This coverage is designed to protect the insured when they have a legal liability for either bodily injury or property damage to another party.

Example: *customers at a restaurant who become sick from food poisoning, or an electrician who incorrectly installs a ceiling fan that causes a fire.*

B. Coverage B – Personal and Advertising Injury Liability (3:55)

Coverage B is for personal and advertising injury.

Example: *This would include things such as false arrest, wrongful eviction, libel, slander, and other types of personal or advertising injuries.*

C. Coverage C – Medical Payments (4:11)

Coverage C is used for emergency medical expenses for parties other than the insured or their employees.

Example: *if a child fell and broke their arm in the restaurant, Coverage C would pay for the child’s medical bills.*

5. Endorsements (3:12)

What are endorsements?

Endorsements are amendments or additions to policy contract language that affect coverage.

LESSON 2.3 COMMERCIAL GENERAL LIABILITY POLICY STRUCTURE

There are seven types of liabilities that are covered by the CGL Policy. Describe each one.

1. **Premises liability** *applies to owners, landlords, and tenants, and arises out of the ownership, maintenance, or use of the insured premises. (4:37)*
2. **Operations liability** *arises from activities of an organization, including service and repair activities usually done on the premises of others, while the activity is being done. (4:52)*
3. **Products liability** *coverage begins when a product that has left the insured's premises injures a third party because of a defect. (5:08)*
4. **Completed Operations liability** *arises from work the business has completed that causes damage or injury to others (5:17)*
5. **Contractual liability** *is a special type of obligation the insured has accepted by contract. It is when a business accepts the obligation that it should be responsible if others are sued because of their work. (5:35)*
6. **Contingent liability** *arises out of work performed for the named insured by someone else. It can protect an insured on the policy from negligent acts of an independent contractor. (6:04)*
7. **Personal and Advertising Injury liability** *is a unique situation where a business takes intentional actions with unintended results, such as slandering another person or business, or unintentionally using their trademark in advertising. (6:21)*

LESSON 2.3 COMMERCIAL GENERAL LIABILITY POLICY STRUCTURE

Now let's look at the policy definitions. It will be very helpful if you look at your copy of the CGL Policy while you are learning about these terms.

The meanings of words in a contract are very specific, and when there is a claim or a legal dispute, the exact definition that is in the policy is what will be referred to. As different insurance contracts may have slightly different definitions, you will want to be very familiar with the exact language used by each company.

Explain each term:

Occurrence: *either a one-time accident OR exposure to a harmful condition that is either repeated over a long period of time or is continuous. (7:15)*

Coverage Territory: *To be covered, occurrences must take place in the coverage territory. (7:42)*

What is the coverage territory as defined in the CGL policy?

the United States, including its territories and possessions, Puerto Rico, and Canada

It is very important to understand that all parts of the world are covered if the injury is a result of: *goods or products that are sold or made in the covered territory. The suit for damages must also be made within the United State, Puerto Rico, or Canada.*

Also, if a person whose home is in the coverage territory was away for business for a short period of time outside of the coverage territory, the claim would also be covered.

Personal and Advertising Injury: *If a business carelessly defames another business, or unintentionally steals their trademarked slogans or brands in their advertisement, or has someone inappropriately detained, the CGL policy will come to their defense. (8:53)*

LESSON 2.3 COMMERCIAL GENERAL LIABILITY POLICY STRUCTURE

ACTIVITY: MATCHING COVERAGES AND LIABILITY SCENARIOS

Using the Notes Guide from 2.3 and/or the CGL Policy: Section I Coverages, match the coverages with each liability scenario. Copy the coverage title and paste them above the correct scenario below.

COVERAGES

Bodily Injury & Property Damage Liability (A)	Personal & Advertising Injury Liability (B)	Medical Payments (C)	Supplementary Payments Coverages A & B
Premises Liability	Operations Liability	Products Liability	Completed Operations Liability

SCENARIOS

<i>Premises Liability</i>	<i>Medical Payments</i>	<i>Products Liability</i>	<i>Personal & Advertising</i>
A gas heater at a ski lodge malfunctions causing fumes to seep through vents into the guest area. Several people become ill	A child fell at a restaurant and broke his arm	A swing set with a defective cracked chain causes injury to a child as they fall to the ground	False arrest, wrongful conviction, libel, slander

<i>Supplementary Payments</i>	<i>Operations Liability</i>	<i>Completed Operations</i>	<i>Bodily Injury & Property Damage Liability</i>
Cost to defend the named insured, loss of earnings, and prejudgment interest	Someone gets hit in the head with a falling bucket while the exterior of a business is being painted	A plumber installs a shower head in a hotel room. Weeks later, the shower head falls off, injuring a guest.	Customers at a restaurant became sick from food poisoning

LESSON 2.4 COMMERCIAL GENERAL LIABILITY POLICY SECTION I PART A

NOTES GUIDE

In this lesson, we will begin our journey to learn how to determine when coverage applies according to Coverage A – Bodily Injury and Property Damage Liability. Summarize the sections listed below, based on the lecture.

Insuring Agreement (1:15) *Student responses may vary, but should include answers such as:*

- a. The insurance company agrees *only to pay for damages that are covered under the policy, and only up to the stated limit.*
- b. Section B contains *the conditions that must be met for the insurance company to pay.*
 - (1) *The occurrence must take place in the “coverage territory”*
 - (2) *The occurrence must take place during the policy period*
 - (3) *an insured can't expect injury or damage caused before the policy's inception to be covered*
- e. *damages because of "bodily injury" include care, loss of services, or death resulting at any time from the "bodily injury."*

As an insurance professional, you must be able to clearly explain to a client what is covered, as well as what is NOT covered, by a CGL Policy.

Exclusions (5:27)

There are seventeen exclusions that limit or deny coverage under the CGL Policy. Let's look at the first two.

- a. **Expected or Intended Injury:** *The policy will not provide coverage for bodily injury or property damage if it is expected or intended from the standpoint of the insured.*

What is the exception to this exclusion? *If a court would consider the intentional act in defense of people or property to be “reasonable,” then the exclusion would not apply, so coverage would be available.*

LESSON 2.4 COMMERCIAL GENERAL LIABILITY POLICY SECTION I PART A

- b. **Contractual Liability:** *The policy says that it excludes all types of contractual liability, but then gives some coverage back in the exceptions to the exclusions.*

REMEMBER: A policy initially offers the broadest coverage; exclusions limit policy protections; and endorsements or exceptions can either further limit coverage or add policy protections back.

Exceptions to the Contractual Liability Exclusion (8:01)

- (1) The first exception is *coverage will be provided if the insured would have been liable for the damages in the absence of the contract or agreement.*
- (2) The second exception is *if the contract falls into one of the six categories of “insured contracts,” then it can be covered.*

What is an indemnification agreement? (8:35)

An indemnification agreement, also called a hold harmless agreement, transfers liability by contract.

“Insured Contracts” transfer liability from one party to another. This is called indemnification. These contracts contain language that indemnifies (secures someone against legal liability for their actions) one or more parties to the agreement.

Six Categories of “Insured Contracts” (10:35)

- a) **Lease of Premises:** *an agreement that indemnifies the owner of the property against damages caused by the lessee.*
- b) **Sidetrack Agreement:** *an agreement between the railroad and property owner that refers to the expense of track running through the property owner’s land for the benefit of the property owner.*

LESSON 2.4 COMMERCIAL GENERAL LIABILITY POLICY SECTION I PART A

- c) **Easements:** *an agreement where one party grants another party permission to cross or use the first party's land for a specific purpose.*

- d) **An Obligation As Required By Ordinance:** *an agreement to indemnify a municipality.
Example: a permit to hold an event on city property.*

- e) **Elevator Maintenance Agreement:** *The property owner transfers their liability to the elevator maintenance company in an agreement that includes the inspection and maintenance of the elevator.*

- f) **PLUS (+) Any other contract or agreement...:** *all of the other types of contracts that have indemnification agreements.*

An easy way to remember what is covered under insurable contracts is by using LEASE+.

L stands for **Lease** of premises and

E is for **Easement**.

A represents the language that begins with "**an obligation as required by ordinance.**"

S is for a **sidetrack agreement** with a railroad, and

E stands for **Elevator** maintenance agreement.

+ And finally, the "**plus**" stands for all the other tort assumptions the insured has made for bodily injury or property damage.

LESSON 2.4 COMMERCIAL GENERAL LIABILITY POLICY SECTION I PART A

ACTIVITY: WHAT TYPE OF INSURED CONTRACT IS IT?

Using Section V Definitions of the CGL Policy, determine what type of insured contract is identified in each case study below.

Case Study	Type of Insured Contract
An individual has no access to a piece of property. She wants to build a road in order to provide access. She enters into an agreement with an adjoining landowner which allows her to do so.	<i>Easement</i>
A local business is situated in a five-story building. They hire a company to service their elevator system. If an accident were to occur and injure a patron, the hold harmless agreement would determine which party assumes the responsibility.	<i>Elevator Maintenance Agreement</i>
A non-profit organization decides to hold a craft fair at the local city park in your town. There will be several hundred people attending this event that spans a three-day period.	<i>An obligation as required by ordinance</i>
The landlord of an ice cream shop requires the tenant to assume responsibility for any injury to customers or damage done to the building	<i>Lease</i>
A manufacturer of automobiles uses the railroad system for shipping purposes. The railroad requires the manufacturer to assume liability arising out of the use and maintenance of the track that runs from a main line to the auto plant.	<i>Sidetrack</i>

LESSON 2.5 UNIT 2 REVIEW ACTIVITY

Be sure to review all your notes and, if you need to, the videos from Unit 2, to prepare for your Unit Assessment.

1. Review Unit 2 vocabulary, pre-test, and lesson activities 2.1 to 2.4 to determine your two lowest-scoring areas.

Write these two areas below:

a.

b.

✂ Read Unit 2 CISR “Scissor” Notes located in the Appendix.

2. Rewatch the video/lectures for your two lowest-scoring areas.
3. Review your **Student Learning Guide** notes.
4. Select at least two terms from your lowest-scoring areas and create a mnemonic device to help you remember them.

UNIT 3 COVERAGES AND EXCLUSIONS**ACTIVITY: UNIT PREVIEW**

1. Read through **UNCOVERING THE LEARNING OBJECTIVE**.
2. Read the **Insurance and Business Terms** for this unit. Which terms are you already familiar with? Place a star next to each term you already know. Which terms are new to you?
3. Answer the **Guiding Questions**.
4. Think of three possible misconceptions or assumptions you have about the learning objective.

UNIT 3 COVERAGES AND EXCLUSIONS

UNCOVERING THE LEARNING OBJECTIVE

Learning Objective: You will be able to explain when coverage applies and when it is excluded according to Coverage A: Bodily Injury and Property Damage Liability and Coverage B: Personal and Advertising Injury Liability of the Commercial General Liability Policy.

Insurance and Business Terms:

- **Compulsory/Financial Responsibility Laws:** something that is mandated by law.
- **Contractual Liability:** liability that one party assumes, under a contract, on behalf of another.
- **Indemnification Agreement:** a contract that holds a business harmless or protects them from lawsuits, for loss or damage.
- **Libel:** harm or damage caused to a person's reputation resulting from false "written statements" made by others.
- **Litigated/litigation:** the process of defending a case in a court of law.
- **Liquor Liability:** bodily injury or property damage arising out of providing alcohol to others.
- **Negligence:** failure to behave with a level of care that is expected from a reasonable person.
- **Preclude:** prevents something from happening.
- **Slander:** harm or damage caused to a person's reputation resulting from the false "spoken statements" made by others, where others heard it.
- **Statute:** a written law.
- **Subcontractor:** a person or business who takes part in completing a project on behalf of another contract—usually a large project.

UNIT 3 COVERAGES AND EXCLUSIONS**Guiding Questions:**

1. What is the purpose of exclusions in insurance policies?

Exclusions withhold coverage for risks that are better covered by another policy. This includes risks an insurance company is unwilling to cover and narrows the coverage provided by an insurance company.

2. What exclusions in Coverage A: Bodily Injury and Property Damage Liability would be considered catastrophic, impacting a large number of policyholders simultaneously?

Pollution and War

3. What does Personal and Advertising Injury Liability protect the insured against?

Libel, slander, false arrest, use of another's advertising idea, infringement on another's copyright, wrongful eviction, entry or invasion of privacy, malicious prosecution.

LESSON 3.1 COVERAGE A EXCLUSIONS C – F

NOTES GUIDE

In Lesson 2.4, we looked at the first two exclusions to Part A. In this lesson, we will consider more exclusions to Part A. Refer to the CGL policy.

- c. Liquor Liability** *This excludes bodily injury or property damage arising out of providing alcohol to others ONLY if the insured is in the business of making, selling, serving, or furnishing alcoholic beverages. (1:20)*

If the Liquor Liability exclusion applies to a business, how do they insure themselves against liquor-related damages?

They typically would buy a separate liquor liability policy if they wanted coverage. (1:48)

What is “host liquor liability?” (2:06)

If the insured is NOT engaged in liquor-related activities as a business pursuit, the CGL Policy exclusion does not apply. For these businesses, the policy would provide liability coverage for a business that is, for example, providing liquor for a holiday office party for their staff and other invited guests.

- d. Workers' Compensation And Similar Laws and e. Employer's Liability** (2:19)

The fourth and fifth exclusions keep the CGL Policy from responding to obligations that are covered by Workers' Compensation and Employers' Liability insurance.

What do workers' compensation laws respond to?

Workers' compensation laws respond to statutes that provide benefits to injured employees and limit employer obligations for injured employees.

LESSON 3.1 COVERAGE A EXCLUSIONS C – F**f. Pollution (4:36)**

In this policy, a pollutant can be almost anything. How is **pollutant** defined?

any solid, liquid, gaseous, or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals, and waste, which includes materials to be recycled, reconditioned, or reclaimed.

On-Premises Liability (5:02)

If the pollutant came from the insured's premises, the loss is excluded; therefore, it is not covered. There are two exceptions.

(i) *Smoke from a hostile fire, which is a fire that is not where it's supposed to be.*

(ii) *Fumes or vapors from a heating system in the building.*

These are exceptions to an exclusion which means the CGL Policy would cover these types of claims, even though they arose from pollution events.

Off-Premises Liability (5:52)

If the insured is off their premises and they brought the pollutant with them to the premises, then the pollutant loss is not covered.

What is the exception for accidents involving leaks from equipment used during the insured's operations?

There is an exception for accidents involving leaks from equipment used during the insured's operations IF the fluids were central to the operation of the equipment.

Since the pollution coverage available in the CGL Policy is limited, it is common for insurance companies to add an endorsement to the policy that eliminates all pollution coverage. This is called the "Total Pollution Exclusion" endorsement.

LESSON 3.1 COVERAGE A EXCLUSIONS C – F

ACTIVITY: EXPLAIN THE EXCLUSIONS

Using Section I: COVERAGE A Exclusions of the CGL Policy listed in the word bank below, fill in the blank in each scenario.

Word Bank:

Host Liquor Liability Pollution	Workers' Compensation Liquor Liability
--	---

1. A restaurant worker under the age of 21 serves himself some liquor one night at the end of his shift. He later drives around while intoxicated and causes an accident. You explain that coverage does not apply to Liquor Liability under their CGL Policy.
2. Lenny's Landscaping is hired by a business to do some landscaping for the local country club. In digging a hole, Lenny hits an underground tank which allows sewage to seep out and cause property damage. You explain this is Pollution and is excluded from coverage under Bodily Injury and Property Damage Liability.
3. The Smith Agency invites clients to the agency for an open house. One client has too much to drink and falls down the stairs, breaking his leg. He makes a claim against The Smith Agency. You explain the Host Liquor Liability exclusion would not eliminate coverage since the agency is not in the business of manufacturing, distributing, selling, serving, or furnishing alcoholic beverages.
4. Rich is injured on the job when he falls off a ladder while fixing an overhead sprinkler system. He injures his back and will need physical therapy. He brings a claim against his employer under the CGL Policy. You explain that Workers' Compensation is an exclusion under his employer's CGL Policy, since he was injured on the job.

LESSON 3.2 COVERAGE A EXCLUSIONS G – J**NOTES GUIDE**

In this lesson, we will continue our review of the exclusions that apply to Part A of the Commercial General Liability Policy.

Exclusion g. Aircraft, Auto, Or Watercraft (0:14)

Liability arising out of the use of aircraft, autos, or watercraft is not covered.

How does the policy define “auto”? (0:22)

The policy defines “auto” to mean a land motor vehicle designed to travel on public roads.

The CGL Policy is designed to specifically cover the use of other motor vehicles, otherwise known as mobile equipment. (0:43)

Exceptions to Exclusion g. (1:42)

While the CGL Policy does not cover watercraft, there are exceptions:

The policy will provide coverage for liability arising out of owned watercraft while ashore on the premises owned or rented by the named insured.

They will provide coverage for liability arising out of non-owned watercraft if it is less than 26 feet long and not being used to carry property or persons for a fee.

While the CGL Policy generally excludes coverage to autos, there are exceptions:

Coverage will be provided for liability arising out of parking an auto on or next to the named insured’s premises. However, no property damage coverage is granted to an auto being parked or any other property in the care, custody, or control of the insured.

According to this exception to the policy, what would be covered in the example on the next page?

LESSON 3.2 COVERAGE A EXCLUSIONS G - J

Read the following case study example and determine how the insurance company would cover the damages.

A nice restaurant provides a valet service for customer's cars. Employees of the restaurant take the keys of arriving customers and park their vehicles in a special section of the parking lot. For overflow, the restaurant has an arrangement with a parking lot owner down the street. If an employee is parking a customer's car and causes damage to another vehicle on the street, what would be covered?

The damage to the vehicle on the street would be covered, but damage to the car the valet is driving would NOT be covered because it is in the care and control of the insured. (2:32)

Exclusion h. Mobile Equipment (4:38)

The transportation of mobile equipment by an auto owned by, operated by, rented to, or loaned to any insured is excluded because the liability should be covered under a Business Auto Policy or an Inland Marine Policy.

Exclusion i. War

It is common for insurance policies to exclude war or warlike actions that result in bodily injury or property damage. War simply is uninsurable.

Exclusion j. Damage to Property (5:37)

Exclusion j. excludes damage to *any property owned, rented, or occupied by the named insured. The exclusion also applies to any property in the care, custody, or control of the insured.*

If the insured causes damage to their own property, there simply is no coverage under liability policies.

What type of policy would an insured purchase to protect their property?

property insurance as opposed to liability insurance

LESSON 3.2 COVERAGE A EXCLUSIONS G - J

j. (5) excludes property damage to that particular part of real property on which work is being done. (7:53)

j. (6) excludes that particular part of any property that requires restoration, repair, or replacement because "your work" was incorrectly performed on it. This exclusion is typically thought of as faulty workmanship. This exclusion does not apply to "property damage" included in the "products completed operations hazard". Such as a new furnace being installed in your building that suddenly explodes. The policy would not pay for damage to the furnace, but property damage to the building.

This exclusion does not apply to property damage, other than by fire, including premises and contents of the premises, rented to you for a period of seven or fewer consecutive days.

A separate limit of insurance applies to Damage to Premises Rented to You for rentals longer than seven days. This limit is addressed in Section III: Limits of Insurance

What does "your work" mean? (8:46)

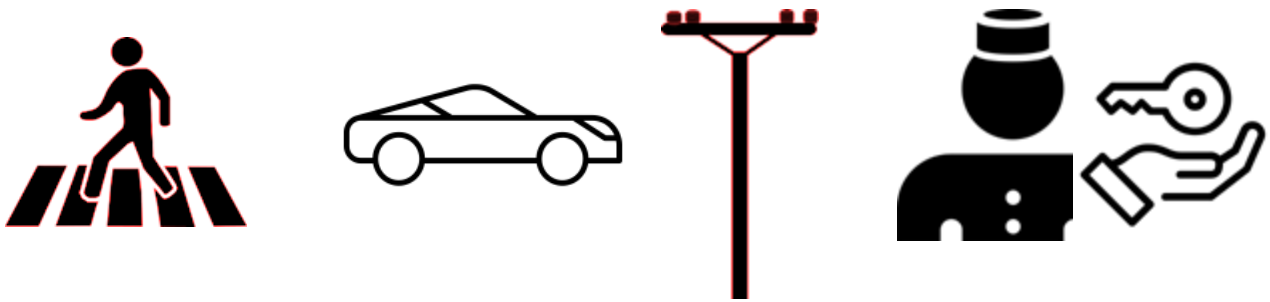
"Your work" means work or operations performed by you or on your behalf and materials, parts, or equipment furnished in connection with such work or operations.

LESSON 3.2 COVERAGE A EXCLUSIONS G - J

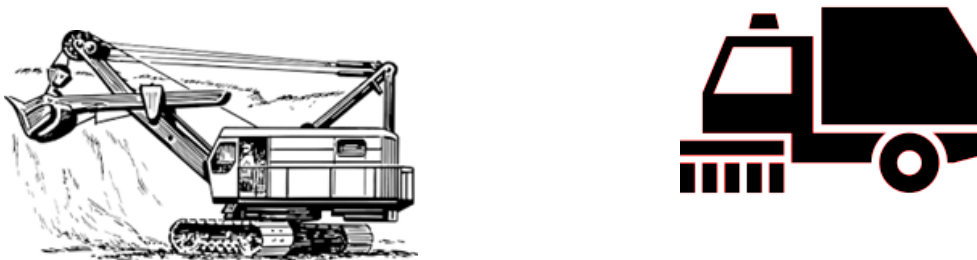
ACTIVITY: UNDERSTANDING EXCEPTIONS TO EXCLUSIONS

Use the CGL Policy, Exclusions g. through j. to assist. Circle the correct image(s) in each scenario.

EXCLUSION G. AUTO: An employee for a restaurant that provides valet parking, drives a customer's car toward the back lot of the restaurant. The restaurant employee swerves to avoid a cat, hitting a pedestrian and an electrical pole. What exceptions are covered?



EXCLUSION H. WHICH IS NOT CONSIDERED MOBILE EQUIPMENT? A bulldozer on a job site or a vehicle meant for cleaning streets



EXCLUSION J: WHAT PERIL IS AN EXCEPTION TO THE EXCLUSION OF PREMISES RENTED TO YOU? A business owner rents space in a business complex for their candle shop. One day, an employee starts a fire that results in damage to the premises.



LESSON 3.3 COVERAGE A EXCLUSIONS K – Q**NOTES GUIDE**

This lesson will focus on the remaining exclusions to Coverage A – Bodily Injury and Property Damage Liability. As you may remember, there are seventeen exclusions, so let's continue our discussion with the eleventh exclusion, or exclusion k. Damage To Your Product.

Exclusion k. Damage to Your Product

The policy states that property damage to your product arising out of it or any part of it is NOT covered. The concept is that a component of a product could cause damage to the rest of the product.

How is “your product” defined in the CGL Policy? (0:38)

any goods or products other than real property, manufactured, sold, handled, distributed, or disposed of by you.

Exclusion I. Damage to Your Work (1:08)

“Your work” is defined as *any work or operation performed by you or on your behalf, as well as materials, parts, or equipment furnished in connection with such work or operations.*

Only property damage to your work is excluded. Resultant damage caused by your work is covered. Resultant damage would include bodily injury arising from a defective product. (1:22)

There is an important exception that states that coverage **is** provided **if** the damaged work or the work out of which the damage arises is done on your behalf by a subcontractor.

LESSON 3.3 COVERAGE A EXCLUSIONS K – Q**Exclusion m. Damage to Impaired Property or Property Not Physically Injured (2:30)**

"Impaired property" means tangible property other than "your product" or "your work" that cannot be used or is less useful because it incorporates "your product" OR "your work" that is known or thought to be defective, deficient, inadequate, or dangerous.

Exclusion n. Recall Of Products, Work, Or Impaired Property

This exclusion states that the recall of products, work, or impaired property are not covered. The CGL Policy simply is not designed to cover this exposure.

Exclusion o. Personal and Advertising Injury (4:07)

The next exclusion, Personal and Advertising Injury, is entirely excluded under Coverage A because:

Coverage B of the CGL Policy provides this coverage.

There are two more exclusions in Coverage A of the CGL Policy.

Exclusion p. Electronic Data (4:30)

The term **"electronic data"** includes systems, applications software, and the like. The exclusion reaffirms that the CGL Policy is designed to respond to claims for damage to tangible property. The data in computer systems is not tangible.

There is an exception for bodily injury arising from electronic data.

Exclusion q. Recording and Distribution of Material in Violation of Law (5:11)

In summary, this exclusion says that if a company violates statutes that govern e-mails, faxes, phone calls, or other methods of sending information, there is no liability coverage.

LESSON 3.3 COVERAGE A EXCLUSIONS K – Q

ACTIVITY: LIABILITY LAWSUIT

Read the case study, **GM Settles Faulty Ignition Switch Cases for \$120 Million**, on *insurancejournal.com* by clicking on the link below. *This article is also found in the Appendix.*

<https://www.insurancejournal.com/news/national/2020/03/30/562688.htm>

Answer the questions below based on the article and using your 3.3 Notes Guide and Exclusion I. Damage to Your Work in the CGL Policy.

Defective part:	<i>Ignition switches</i>
How did the defective part negatively affect the vehicles?	<i>It caused GM vehicles to stall and prevented airbags from deploying.</i>
Settlement amount to GM vehicle owners:	<i>\$120 million</i>
Number of deaths:	<i>124</i>
Explain the difference between property damage (an exclusion) and resultant damage (an exception to the exclusion) as it relates to this lawsuit.	<i>Property damage to the ignition switches is an exclusion, but does not apply if the damaged work or the work out of which the damage arises was performed on your behalf by a subcontractor. Resultant damage caused by your work is covered. Resultant damage includes bodily injury caused by a defective product.</i>

LESSON 3.4 COVERAGE B PERSONAL AND ADVERTISING INJURY LIABILITY COVERAGE**NOTES GUIDE**

In this lesson, we are moving on to Coverage B. By the end of this lesson, you will be able to explain Section One: Coverage B of the CGL Policy to a client. Coverage B is specific to personal and advertising injury liability.

Define **Personal and Advertising Injury**. What does it cover? (0:36)

- *injury, including consequential "bodily injury," arising out of false arrest, detention or imprisonment, or malicious prosecution.*
- *the wrongful eviction from, wrongful entry into, or invasion of the right of private occupancy of a room, dwelling, or premises that a person occupies, when this act is committed by or on behalf of the owner, landlord, or lessor.*
- *oral or written publication in any manner of material that slanders or libels a person or organization, or disparages a person's or organization's goods, products, or services.*
- *The use of another's advertising idea, as it is infringing upon another's copyright, trade dress, or slogan.*

The Insuring Agreement for Coverage B promises to *pay those sums that the insured becomes legally obligated to pay as damages because of "personal and advertising injury" to which this insurance applies.* (1:28)

The company also states that it has the *right and duty* to defend the insured against "suits." (1:43)

LESSON 3.4 COVERAGE B PERSONAL AND ADVERTISING INJURY LIABILITY COVERAGE

Coverage B has a long list of exclusions. Use the policy and video lecture to list them below and describe each one. *Student responses may vary, but should include the following.*

- a. *Knowingly Violating the Rights of Another: When you know that your action is an infringement upon another. Example: walking into a dressing room stall when a customer is changing clothes (4:23)*

- b. *Material Published with Knowledge of Falsity: Knowing that you are spreading a lie through written or verbal means. Example: claiming that a restaurant has a rat infestation in order to deter people from going there. (4:56)*

- c. *Material Published Prior to the Policy Period: Anything published prior to the effective date of the policy. (5:09)*

- d. *Criminal Acts: This includes any employee who breaks the law at the direction of the insured. Example: if a business owner instructs an employee to steal trade secrets from a competitor. (5:19)*

- e. *Contractual Liability: You cannot assume liability for another entity through a contract. If your own liability is there even without the contract, then the exclusion does not apply.*

- f. *Breach of Contract: If I have a written contract to deliver a service by a certain date, failure to fulfill my obligations of the contract is not an insurable offense. (5:37)*

LESSON 3.4 COVERAGE B PERSONAL AND ADVERTISING INJURY LIABILITY COVERAGE

- g. *Quality of Performance of Goods or the Failure to Conform to Statements: If my product states that you can lose 10 lbs. in two weeks, the failure of my product to live up to the hype is not an insurable offense. Example: Skechers once marketed shoes they claimed would tighten and tone the leg and glute muscles of women who wore those shoes. There was a class action lawsuit for this deceptive advertising (5:44)*

- h. *Wrong Description of Prices: If I advertise a TV for \$100, but it should have been listed for \$1,000, the CGL Policy cannot be used to compel my store to honor the lower price. (5:59)*

- i. *Infringement of Copyright, Patent, Trademark, or Trade Secret: if McDowell's restaurant uses golden arcs that are similar to the golden arches used by the McDonald's restaurant chain, the CGL Policy will not defend McDowell's when McDonald's sues them for infringing on their copyright. However, McDowell's can use the McDonald's logo in their advertising when referencing their competitor. (6:29)*

- j. *Insureds in Media and Internet Type Businesses: Coverage does not apply to risks associated with advertising agencies or other media firms except when it comes to "false arrest, malicious prosecution, or wrongful eviction." Essentially, this exclusion is here so that Coverage B cannot be used as professional liability coverage for these types of businesses. (6:41)*

LESSON 3.4 COVERAGE B PERSONAL AND ADVERTISING INJURY LIABILITY COVERAGE

- k. *Electronic Chat Rooms or Bulletin Boards: If a company hosts or controls their own comment section or chat room on their website, there is no coverage for violations that are done by people chatting on that site. (7:04)*

- l. *Unauthorized Use of Another's Name or Product: Some entities may use a website or a Twitter handle that is deceptively close to that of another organization's in order to trick consumers into using their businesses. If I decided to build my own online store and I made my URL www.ama.zon.com instead of www.amazon.com, there is no coverage for this defense. (7:29)*

- m. *Pollution: Since Coverage B responds to personal injury, some people might argue that pollution is the wrongful entry of a pollutant into another person's space. This form provides no coverage if someone were to sue a business for noise pollution or odors coming from the business. (7:39)*

- n. *Pollution-Related: related to pollution*

- o. *War: similar to the war exclusion found in Coverage A (8:20)*

LESSON 3.4 COVERAGE B PERSONAL AND ADVERTISING INJURY LIABILITY COVERAGE

p. *Recording and Distribution of Material or Information in Violation of the Law: (8:28)*

There is no coverage for violations of anti-SPAM or anti-robocall laws:

(1) The Telephone Consumer Protection Act (TCPA), including any amendment of or addition to such law;

(2) The CAN-SPAM Act of 2003, including any amendment of or addition to such law;

(3) The Fair Credit Reporting Act (FCRA), and any amendment of or addition to such law, including the Fair and Accurate Credit Transactions Act (FACTA); or

(4) Any federal, state, or local statute, ordinance, or regulation, other than the TCPA, CAN-SPAM Act of 2003, or FCRA and their amendments and additions, that addresses, prohibits, or limits the printing, dissemination, disposal, collecting, recording, sending, transmitting, communicating, or distribution of material or information.

LESSON 3.4 COVERAGE B PERSONAL AND ADVERTISING INJURY LIABILITY COVERAGE

ACTIVITY: THE BAKERS' DOZEN: COVERED OR EXCLUDED?

Using your Notes Guide from 3.4 and/or Coverage B of the CGL Policy, read the following case study situations, indicate if the loss is covered or excluded, and name the exclusion involved:

Case Study	Covered? or Excluded?	What is it considered?
You operate a bakery and have lost some customers to a competitor. You publish an advertisement saying the competitor's baked goods aren't made from quality products and they taste like cardboard.	<i>Covered</i>	<i>Libel</i>
One of your bakery employees writes negative comments about your competitor—specifically about their service and products—on an electronic bulletin board you host.	<i>Excluded</i>	<i>Electronic Chat Rooms or Bulletin Boards</i>
One of your current employees used to work for one of your competitors. While they worked for them, they stole the secret recipe to their award-winning cinnamon rolls, which you now have access to. You begin making your cinnamon rolls based on the stolen recipe, and calling them your own.	<i>Excluded</i>	<i>Infringement of Copyright, Patent, Trademark, or Trade Secret</i>
You like the catchy slogan of your bakery competitor and start using it. You decide to print it on labels and place it on your boxed cinnamon rolls.	<i>Excluded</i>	<i>The use of another's advertising idea specifically use of a slogan</i>

LESSON 3.5 UNIT 3 REVIEW ACTIVITY

Be sure to review all your notes and, if you need to, the videos from Unit 3, to prepare for your Unit Assessment.

1. Review Unit 3 vocabulary, pre-test, and lesson activities 3.1 to 3.4 to determine your two lowest-scoring areas.

Write these two areas below:

a.

b.

✂ Read Unit 3 CISR “Scissor” Notes located in the Appendix.

2. Rewatch the video/lectures for your two lowest-scoring areas.
3. Review your **Student Learning Guide** notes.
4. Select at least two terms from your lowest-scoring areas and create a mnemonic device to help you remember them.

UNIT 4 MEDICAL PAYMENTS AND WHO IS INSURED

UNCOVERING THE LEARNING OBJECTIVE

Learning Objective: You will be able to explain the basic structure of the CGL Policy to when medical payments coverage applies, who is an insured and additional insured, and the importance of endorsements.

Insurance and Business Terms:

- **Accrue:** accumulate or receive.
- **Additional Insured:** is a person or organization who is seeking protection under someone else's policy.
- **Adjacent:** next to or adjoining something else.
- **ISO Forms:** policy forms that are considered the industry standard, developed by Insurance Services Office, Inc.
- **Indemnitee:** a person protected by a contractual agreement to be held harmless by the insured.
- **Lessee:** a person who holds the lease.
- **Lessor:** a person who leases to another.
- **Medical Payments:** pays medical expenses for bodily injury caused by an accident, regardless of who was at fault.
- **Manuscript Forms:** custom designed insurance forms that are unique to each company.
- **Pre-judgment Interest:** an amount of money the court rules is owed based on the fact that the injury and the damages occurred in the past.
- **Post-judgment Interest:** interest paid based on the time from the end of the trial to the time money changes hands after the trial.
- **Supplementary Payments:** payments provided in addition to policy limits.
- **Third Party:** individuals other than the insurer or the insured, including customers, guests, and friends.

UNIT 4 MEDICAL PAYMENTS AND WHO IS INSURED**UNIT PREVIEW**

1. Read through **UNCOVERING THE LEARNING OBJECTIVE**.
2. Read the **Insurance and Business Terms** for this unit. Which terms are you already familiar with? Place a star next to each term you already know. Which terms are new to you?
3. Answer the **Guiding Questions**.
4. Think of three possible misconceptions or assumptions you have about the learning objective.

UNIT 4 MEDICAL PAYMENTS AND WHO IS INSURED**Guiding Questions:**

1. Why is it possible to trigger Medical Payments coverage without legal action?
Because it addresses smaller claims with limited coverage for injuries which are paid on a no-fault basis.
2. Why are ISO form numbers important?
Each ISO form edition has coverage differences, which makes it very important to know if a specific edition date of the form has been requested. Some editions limit or do not provide coverage to the named insured's negligence, etc.
3. What additional expenses are included in Supplementary Payments?
Expenses incurred by the insured up to \$250 for bail bonds required; the cost of bonds to release attachments; all reasonable expenses incurred by the insured at the company's request, including actual loss of earnings because of time off work (up to \$250/day); all court costs taxed against the insured, but not including attorney's fees or prejudgment interest awarded against the insured.

LESSON 4.1 SECTION 1 COVERAGE C MEDICAL PAYMENTS

NOTES GUIDE

In this lesson, we will discuss Coverage C – Medical Payments, beginning with how to determine when coverage applies. Medical Payment coverage was included in the CGL Policy as a way to promote goodwill with customers injured on the insured’s premises, or from an accident involving an insured’s operations.

It was designed to quickly pay for _____ *smaller medical expenses* _____ related to an _____ *accident* _____, regardless of _____ *fault* _____, and to hopefully avoid costly _____ *litigation* _____. (0:23)

Let’s look at the Insuring Agreement. In summary,

Coverage C will pay _____ *medical expenses* _____ for bodily injury _____ *triggered* _____ by an accident that is either _____ *on the insured’s premises* _____, _____ *adjacent* _____ to their premises, or a result of _____ *operations* _____ away from their premises. (2:35)

For whom is Medical Payments coverage intended? (2:49)

Medical Payments coverage is intended for third-party individuals like customers, guests, and friends.

Exclusions: Name and describe each exclusion under Coverage C.

- a. *Any Insured: includes the insured’s employees, except for volunteer workers. (2:59)*
- b. *Hired Person: any person hired to do work for or on behalf of any insured, or a tenant of any insured that is not an employee. (3:13)*
- c. *Injury on Normally Occupied Premises: the insured’s tenants are excluded from coverage. (3:22)*

LESSON 4.1 SECTION 1 COVERAGE C MEDICAL PAYMENTS

- d. *Workers' Compensation and Similar Laws – the CGL Policy will not provide coverage to any person if benefits are payable or must be provided under workers' compensation, disability benefits, or similar laws. (3:36)*

- e. *Athletic Activities: removes coverage for persons injured while practicing, instructing, or participating in any physical exercise or games, sports, or athletic contests. (3:48)*

Now that we've reviewed the exclusions for specific categories of people, let's look at the exclusion for products and completed operations hazards. In order to determine the breadth of this exclusion, we have to consult the products-completed operations definition.

- f. *"Products-completed operations hazard" includes all "bodily injury" and "property damage" occurring away from premises owned or rented by the insured, as well as that arising out of their products or work. (4:18)*

- g. *Coverage A Exclusions: anything excluded under Coverage A is excluded under Coverage C. (4:48)*

Supplementary Payments – Coverages A and B

This section identifies types of payments the company will make, in addition to the policy limits, for expenses with respect to any claim investigated or settled, or any suit defended. Importantly, these payments are provided in addition to the policy limits.

There are seven types of payments the company will make in addition to the policy limits. Use the sample policy to describe each one. (5:37)

- a. *All expenses incurred by the insurance company*

- b. *Up to \$250 for bail bonds required*

- c. *The cost of bonds to release attachments*

LESSON 4.1 SECTION I COVERAGE C MEDICAL PAYMENTS

Supplementary Payments – Coverages A and B

- d. *All reasonable expenses incurred by the insured at the company's request, including actual loss of earnings because of time off work (up to \$250/day).*
- e. *All court costs taxed against the insured, but not including attorney's fees.*
- f. *Prejudgment interest awarded against the insured.*

The second part of this section describes what happens if the insurance company defends an insured against a suit, and an indemnitee of the insured is also named as a party to the suit. The insurance company will defend the indemnitee if specific conditions are met.

What is an indemnitee? (7:26)

An indemnitee is a person protected by a contractual agreement to be held harmless by the insured in the event of a loss.

Supplementary Payments has a list of conditions in which a defense of the indemnitee will be paid outside of the occurrence limit of the policy.

The indemnitee agrees in writing to:

- (a) cooperate with the insurance company in the investigation, settlement, or defense of the "suit,"
 - (b) immediately send the insurance company copies of any demands, notices, summonses, or legal papers received in connection with the "suit,"
 - (c) notify any other insurer whose coverage is available, and
 - (d) cooperate with the insured's insurance company in the coordination of benefits.
- (2) The policy then stipulates that the indemnitee must provide the insurance company with any written authorization to obtain records and other information related to the "suit," as well as written authorization for the insurance company to conduct and control the defense of the indemnitee in such "suit."

As long as the conditions as outlined in the Supplementary Payments are met by the indemnitee, the defense costs of the indemnitee will be paid as Supplementary Payments, and these payments will not reduce the limits of liability, but will be paid in addition to the limits.

LESSON 4.1 SECTION 1 COVERAGE C MEDICAL PAYMENTS

ACTIVITY: INVESTIGATE AND IDENTIFY

Choose from the bulleted terms below to answer what is identified in each situation. Refer to page 52 for detail on per occurrence limits.

Supplementary Payments	Medical Payments	Each Occurrence Limit
------------------------	------------------	-----------------------

- a. A local hotel has a large grand opening event where a guest is injured. The guest is taken via ambulance to the local hospital and required stitches and a cast. The guest was said to have been running through the complex and being irresponsible, seemingly causing the fall that led to the injuries. What part of the hotel's CGL Policy will pay for the injured guest's expenses?

Medical Payments

- b. The guest who was injured decides to sue the hotel owner. They do not feel they were being irresponsible and claim that poorly lit areas caused them to become injured. Since the insurance company will need to investigate, the hotel owner was asked to help gather surveillance video, documentation, and photos from the event coordinator. This will require the owner to take time off work, during which they will not be able to perform any of their regular duties.

Supplementary Payments (up to \$250 per day)

- c. The hotel has a CGL Policy with a limit of \$500,000 for each occurrence and \$1,000,000 aggregate limit. The guest sues for \$400,000 for the bodily injury claim (mostly for pain and suffering and mental anguish). The cost of the hotel's defense was \$200,000. The total amount paid was \$600,000. What does this situation represent from the choices above? Explain.

Each Occurrence Limit. The cost to defend will not reduce the limits of insurance. The policy will pay up to \$500,000, so \$400,000 will be paid to the injured guest and \$200,000 will be paid to defend the case.

- d. During the same event, another guest decides to bring a lawsuit against the hotel for food poisoning from the hors d'oeuvres that sat out in the sun all day. This guest missed work and now claims additional distress due to the incident and is suing for \$200,000. What does this situation represent from the choices above? Explain what limits are available for the second claim?

Each Occurrence Limit. \$100,000 will be available from the per occurrence limit of \$500,000. Remember, \$400,000 was already paid out in the last scenario.

LESSON 4.2 WHO IS AN INSURED?

NOTES GUIDE

Define the following three types of insureds on the CGL Policy.

Named Insureds: *the person or organization specifically named on the CGL Declarations, or in some situations, a schedule of organizations owned by a holding company. (0:49)*

Automatic Insureds: *those persons or organizations that qualify automatically as insureds because the CGL Policy says they are within the text of the contract. (0:59)*

Additional Insureds: *persons or organizations that qualify because they are added by endorsement. (1:11)*

Section II – Who Is an Insured?

Use your sample policy to describe Who Is an Insured under each circumstance listed below.

- a. an individual: *you and your spouse are insureds, but only with respect to the conduct of a business of which you are the sole owner. (1:28)*
- b. a partnership or joint venture: *you, your members, your partners, and their spouses are insureds, but only with respect to the conduct of your business. (1:37)*
- c. a limited liability company: *you are an insured. Your members are also insureds, but only with respect to the conduct of your business. Your managers are insureds, but only with respect to their duties as your managers. (2:55)*
- d. other organizations: *you are an insured. Your executive officers and directors are insureds, but only with respect to their duties as your officers or directors. Your stockholders are also insureds, but only with respect to their liability as stockholders. (3:58)*
- e. a trust: *you are an insured. Your trustees are also insureds, but only with respect to their duties as trustees. (3:25)*

LESSON 4.2 WHO IS AN INSURED?

Others considered to be automatic insureds under the CGL Policy are employees and volunteers, but only for acts within the scope of their employment OR while performing duties related to the conduct of the named insured's business. (4:47)

Define **volunteer worker**: *A "volunteer worker" is a person who is not an employee and who donates his or her work, and who is not paid a fee, salary, or other compensation by the named insured or anyone else for work performed for the named insured. (5:00)*

Also, newly acquired or newly formed organizations qualify as automatic insureds only if there is no other similar insurance in place. These new organizations are granted coverage as insureds for only 90 days after the acquisition or formation, or until the policy ends, whichever comes first. (5:19)

Partnerships or joint ventures have unique ownership structures and are not suitable for this automatic coverage.

The third category of insureds under the CGL Policy is an Additional Insured.

How does a named insured add an individual as an additional insured?

The only way for an individual to become an additional insured on the CGL Policy is by adding an endorsement. This means the action is deliberate and has been approved by the insurance company. (6:15)

Why would an insured add others to their CGL Policy? (6:27)

- *because of a close business relationship with the named insured.*
- *because the contractual relationship requires it.*

LESSON 4.2 WHO IS AN INSURED?**ACTIVITY: WHO IS AN INSURED? TRUE OR FALSE?**

Refer to Section II of the CGL Policy—Who Is An Insured—as it relates to when a business is a partnership or sole proprietor. Read the scenarios below and determine whether the statements are true or false based on your findings from the policy.

Previous partnerships owned by individual partners have automatic coverage for 90 days.	<i>FALSE</i>
Partners' spouses, while doing partnership business, are considered insureds, even if they are not named in the Declarations.	<i>TRUE</i>
Individual partners must be named in the Declarations to be considered insureds.	<i>FALSE</i>
Any newly formed partnership has automatic coverage for 90 days, or until the end of the policy period.	<i>FALSE</i>
The named insured has broader coverage than any other insured under the CGL Policy.	<i>TRUE</i>
Family members are also considered named insureds when the insured business is an individual proprietorship.	<i>FALSE</i>
An individual person cannot be the named insured if the insured business is operating under a DBA (doing business as) name.	<i>FALSE</i>
Newly formed corporations have automatic coverage for 90 days, or until the end of the policy period, whichever is earlier.	<i>TRUE</i>
Spouses of any insured are automatically considered insured.	<i>FALSE</i>

LESSON 4.3 INTRODUCTION TO ADDITIONAL INSURED

NOTES GUIDE

In this lesson we will examine the reasons why another person or organization would want additional insured status and identify problems associated with additional insured status for both the named insured and the additional insured.

An additional insured is *a person or organization who is seeking protection under someone else's policy. (0:29)*

Four reasons to seek status as an Additional Insured

1. It may assure greater safety as a way to transfer risk. There are many circumstances where an individual or organization is looking for a "safety-net" in the event a hold harmless agreement is not enforceable. That extra protection can be provided by being added as an additional insured on the other party's CGL Policy. *(1:00)*

A good way to remember this is that a hold harmless provides assurance, while the additional insured endorsement provides insurance. An indemnification agreement might not hold up in court if challenged, so the insured status provides better protection. *(2:11)*

2. It provides access to the direct rights granted under the named insured's CGL Policy. The additional insured has many of the same rights as the named insured, such as access to the named insured's policy limits. *(2:34)*
3. It provides protection from subrogation. Subrogation is *when an insurance company tries to recover money it has paid for claims from a third party they believe is responsible for the loss. (3:15)*
4. Requesting additional insured status can reduce direct insurance costs. An additional insured can get a lower rate because *when losses can be paid under someone else's insurance, for which an individual is listed as an Additional Insured, his/her loss ratio is improved, which improves their future term premiums. (4:05)*

LESSON 4.3 INTRODUCTION TO ADDITIONAL INSURED

Problems Associated with Additional Insured Status

Let's first look at the problems that additional insureds can cause for the **named insured**.

1. Diminution of Policy Limits (Sharing Limits): *additional insureds on the policy increase the entities that are covered, but not the policy liability limits. (4:53)*
2. Unintended Coverage: *Often, the insured agrees to provide more liability coverage than is asked for by an additional insured. (5:11)*
3. Defense Conflicts: *The conditions of the CGL Policy state that the insurance company promises to treat each insured individually, and that can sometimes result in the insurer providing conflicting defenses in order to properly defend each party. (5:42)*
4. Compliance: *The additional insured may not comply with every condition in the policy. (6:09)*

Now let's look at problems that additional insured status can create for the **additional insured**.

1. Loss of Defense Control: *The named insured's carrier will provide the defense. Although the additional insured's insurer may come in at the end of the defense, they are not part of crafting the defense because that right or responsibility belongs to the primary insurance provider. (6:26)*
2. Disputes Over Coverage: *Sometimes, confusion arises over which is the primary insurance and which is the excess insurance. When this happens, litigation is the only way to determine which insurance pays first. (6:56)*

LESSON 4.3 INTRODUCTION TO ADDITIONAL INSURED

3. Limited Coverage Under Current Forms: *If an insured is covered **only** as an additional insured, they may have gaps in coverage for their own sole negligence. (7:23)*

4. Waived Immunity: *In many cases, organizations or political subdivisions—entities that are granted sovereign immunity or provided limitation to liability by statute—can lose their immunity by being added to another party's CGL Policy. (7:54)*

5. Dependence on Someone Else's Insurance: *This can be a benefit if the person or organization has additional insurance on their own, but if they are solely dependent on someone else's insurance as an additional insured, there may be gaps in coverage related to their liability. (8:11)*

LESSON 4.3 INTRODUCTION TO ADDITIONAL INSURED**ACTIVITY: SELLING ON AMAZON**

Merchants who sell on Amazon are required to provide proof of a CGL Policy, at their expense, with a \$1M per occurrence, and must include product liability, bodily injury, or personal injury, property damage, and other requirements as stated in the agreement with Amazon. The policy must also name Amazon.com, Inc., and its affiliates and “assignees” as additional insureds.” This will cover liabilities caused by or occurring in conjunction with the operation of the merchant’s business, including products, products/completed operations, and bodily injury.

1. Why would Amazon want protection from subrogation as it relates to merchants/sellers and their products? Refer back to your 4.3 Notes Guide.

Amazon would want to be protected when an insurance company tries to recover money it has paid for claims from a third party they believe is responsible for the loss—a loss that may be from a defective product a merchant sells to a consumer.

2. As you have learned, there are problems associated with adding “Amazon” as an additional insured. Explain the problems listed below that affect the merchant/seller:

- a. Diminution of policy limits:

Adding Amazon increases the number of entities covered, but does not increase the policy limits.

- b. Unintended coverage provided:

The merchant adds more liability coverage than is needed.

- c. Defense conflicts:

Because the insurance company would treat the merchant/seller and Amazon individually, it might provide conflicting defenses in order to properly defend each party.

LESSON 4.4 FORMS, FORM NUMBERS, AND ADDITIONAL INSURED

NOTES GUIDE

In this lesson, we will discuss the purposes and coverage provided for selected Additional Insured endorsements.

Why is it important for insurance policy forms to change and evolve over time?

Additional Insured forms are often amended due to case law; prior editions of these endorsements have unintentionally provided broader coverage than what was given to the named insured.

There are varying types of additional insured endorsements depending on the different needs of the various types of additional insureds. That is why it is so important for you, as an insurance professional, to understand the endorsements that you recommend to clients.

Insurers use a variety of forms. While some companies prefer to use older versions, others use the latest ISO forms. In addition, some insurers may use manuscript endorsements.

What is a manuscript endorsement?

A manuscript endorsement is a customized, unique agreement attached to a policy that is written to tailor coverage for that company's purposes. In other words, companies write manuscript endorsements for themselves. (1:08)

You also must remember that the same form can have different edition dates, and each edition has coverage differences. Because of this, it is very important to know if a specific edition date has been requested and which edition should be used to be in compliance with a contract.

LESSON 4.4 FORMS, FORM NUMBERS, AND ADDITIONAL INSURED

Let's look at the ISO forms numbering system. Each set of numbers or letters tell the insurance professional something specific.

ISO FORMS NUMBERING SYSTEM			
Prefix	Category Number	Prefix	Edition Date Month/Year
CG	20	10	04 13
CG	20	10	11 85

The first two letters stand for the insurance coverage line. If you are looking at a Commercial General Liability form, the first letters will be CG. All Commercial Property Policies will have the prefix of CP. (3:58)

The next two symbols are numbers that stand for the category of the form or endorsement. For example, additional insured endorsements start with 20 and exclusion endorsements start with 21. (4:05)

The next two digits refer to the particular type of endorsement, with each having a specific purpose. (4:12)

The last four digits are the edition date of the form or endorsement, expressed in month and year format. (4:16)

ISO Forms have undergone many revisions, therefore, it is important to know the edition date you're working with so you are clear on what coverages are available. Definitions, paragraph numbers, and whether or not an endorsement is needed, are some aspects to note. The primary reason forms are changed is to broaden or reduce coverage, followed by the need for clarification, to reflect a court's analysis of the interpretation, and to reflect societal changes.

LESSON 4.4 FORMS, FORM NUMBERS, AND ADDITIONAL INSURED

Selected Endorsements

Endorsement Title	When is it used?	What does it do?
Additional Insured – Owners, Lessees or Contractors – Scheduled Person or Organization CG 20 10 12 19	<i>used when an owner, lessee, or contractor requires they be added to the named insured's policy as an additional insured.</i>	<i>provides liability coverage to the additional insured for liability caused, in whole or in part, by the named insured's acts or omissions, or by those acting on the named insured's behalf for ongoing operations.</i>
Additional Insured – Owners, Lessees or Contractors – Completed Operations, CG 20 37 12 19	<i>used when an owner, lessee, or contractor requires they be added to a named insured's policy to include the completed operations only.</i>	<i>This endorsement provides liability coverage for the additional insured when the liability is caused, in whole or in part, by the named insured's completed work.</i>
Additional Insured – Lessor of Leased Equipment, CG 20 28 12 19	<i>used when the lessor of leased equipment requires they be added to the named insured's policy.</i>	<i>modifies the Who Is An Insured provision to include the person or organization shown in the schedule as an additional insured. It provides liability coverage to the additional insured caused, in whole or in part, by the named insured's maintenance, operation, or use of the equipment.</i>

LESSON 4.4 FORMS, FORM NUMBERS, AND ADDITIONAL INSURED

In addition to the endorsements above, Automatic Additional Insured endorsements are also used.

What is the purpose of an Automatic Additional Insured endorsement?

It is used to automatically include persons or organizations to meet written contract requirements without having to request additional insured status on an individual basis.

Endorsement Title	When is it used?	What does it do?
Additional Insured – Owners, Lessees, or Contractors – Automatic Status When Required in Construction Agreement with You, CG 20 33 04 13	<i>automatically provides additional insured status to that entity for whom the named insured is performing operations, when the named insured and the other party have a written contract to this effect.</i>	<i>provides liability coverage to the additional insured for liability caused, in whole or in part, by the named insured's acts or omissions or those acting on the named insured's behalf, while in the performance of the named insured's ongoing operations.</i>
Additional Insured – Lessor of Lease Equipment – Automatic Status When Required in Lease Agreement with You, CG 20 34 12 19	<i>automatically provides additional insured status to that entity when the named insured is required to do so by a written lease contract or agreement.</i>	<i>provides liability coverage to the additional insured for liability caused, in whole or in part, by the named insured's maintenance, operation, or use of the equipment.</i>

LESSON 4.4 FORMS, FORM NUMBERS, AND ADDITIONAL INSURED

ACTIVITY: DISSECTING ADDITIONAL INSURED

Using the Notes Guide from Lesson 4.4, answer the following about additional insured endorsements. Describe below each cell what the identifying characters mean and answer the coverage questions.

1. Owners, Lessees, or Contractors – Scheduled Person or Organization, CG 20 10 12 19

CG	20	10	12	19
<i>Commercial General Liability</i>	<i>Additional Insured Endorsement</i>	<i>Type of Endorsement</i>	<i>Edition Date December</i>	<i>Edition Date 2019</i>

What does it cover? *Ongoing Operations* What is excluded? *Completed Operations*

2. Additional Insured – Owners, Lessees, or Contractors – Completed Operations, CG 20 37 12 19

CG	20	37	12	19
<i>Commercial General Liability</i>	<i>Additional Insured Endorsement</i>	<i>Type of Endorsement</i>	<i>Edition Date December</i>	<i>Edition Date 2019</i>

What does it cover? *Completed Work* What is excluded? *Ongoing Operations*

3. Additional Insured – Lessor of Leased Equipment, CG 20 28 12 19

CG	20	28	12	19
<i>Commercial General Liability</i>	<i>Additional Insured Endorsement</i>	<i>Type of Endorsement</i>	<i>Edition Date December</i>	<i>Edition Date 2019</i>

What does it cover? *Liability for the additional insured, by the named insured's maintenance, operation, or use of leased equipment.*

Remember, Automatic Additional Insured Endorsements are used to automatically include persons or organizations to meet written contract requirements without having to request additional insured status on an individual basis.

LESSON 4.5 UNIT 4 REVIEW ACTIVITY

Be sure to review all your notes and, if you need to, the videos, from Unit 4 to prepare for your Unit Assessment.

1. Review Unit 4 vocabulary, pre-test and lesson activities 4.1 to 4.4 to determine your two lowest-scoring areas.

Write these two areas below:

a.

b.

✂ Read Unit 4 CISR “Scissor” Notes located in the Appendix.

2. Rewatch the video/lectures for your two lowest-scoring areas.
3. Review your **Student Learning Guide** notes.
4. Select at least two terms from your lowest-scoring areas and create a mnemonic device to help you remember them.

UNIT 5 THE BUSINESS AUTO POLICY**UNIT PREVIEW**

1. Read through **UNCOVERING THE LEARNING OBJECTIVE**.
2. Read the **Insurance and Business Terms** for this unit. Which terms are you already familiar with? Place a star next to each term you already know. Which terms are new to you?
3. Answer the **Guiding Questions**.

Think of three possible misconceptions or assumptions you have about the learning objective.

UNIT 5 THE BUSINESS AUTO POLICY

UNCOVERING THE LEARNING OBJECTIVE

Learning Objective: You will be able to explain to a client who is an insured, liability exclusions, and physical damage coverage under the Business Auto Policy.

Insurance and Business Terms:

Auto Dealers Coverage Form: designed to insure those businesses in the auto and trailer dealer business and have unique exposures that are better protected by this coverage form.

Business Auto Policy: provides coverage for most business auto exposures.

Business Auto Coverage (BAC) Form: is designed to provide liability and/or physical damage coverage for owned, non-owned, or hired/borrowed autos that may be used in the named insured's business operations.

Hired Autos: autos a business organization or sole proprietor leases, hires, rents, or borrows.

Motor Carrier Coverage Form: is designed to insure businesses that transport goods for themselves or for others.

Non-owned Autos: are autos a business organization or sole proprietor doesn't own, hire, rent, or borrow in connection to the business.

Owned Autos: an auto that is owned in the name of a business.

Vicarious Insureds: persons or organizations held liable for the conduct of the insured.

Guiding Questions:

1. How is the Business Auto Policy different from the Personal Auto Policy?

The Business Auto Policy is for vehicles used for business purposes, sometimes with multiple drivers and multiple vehicles. The vehicles can be owned, leased, or hired by the company, or employee-owned vehicles used for business purposes. The Personal Auto Policy protects individuals and families who own private passenger vehicles.

2. Why is negligence important as it relates to determining liability?

Negligence is used to determine whether the operator of a vehicle is responsible for an accident. If a breach of duty owed to others is not directly related to the damage caused in an accident, then there is no negligence, and thus, no liability.

3. What does the Business Auto Coverage Form include?

It includes liability and/or physical damage coverage for owned, non-owned, or hired/borrowed autos that may be used in the named insured's business operations.

LESSON 5.1 INTRODUCTION TO THE BUSINESS AUTO POLICY**NOTES GUIDE**

In this lesson, we will begin looking at the Business Auto Policy, commonly referred to as the BAP. The Business Auto Policy provides coverage for most business auto exposures. It is designed to provide auto insurance protection for businesses if they own vehicles, and even if they don't.

What types of vehicles might a business use? Think out-of-the-box here. Does the business have to own the vehicles it uses for operations? What types of vehicles might they use for different purposes?

Student responses will vary.

Delivery vans; passenger shuttles; service trucks to hauls equipment to a jobsite; vehicles used to run errands for the business

Define **auto**. (1:10)

In the Business Auto Policy, auto means a land motor vehicle; "trailer" or semi-trailer designed for travel on public roads; or any other land vehicle that is subject to a compulsory or financial-responsibility law or other motor vehicle insurance law in the state where it is licensed or principally garaged.

The definition of "auto" does not include "mobile equipment." (1:29)

Four Parts of a Business Auto Policy (1:32)

List the four parts of a BAP:

1. The Declarations
2. Conditions
3. Coverage Form
4. Endorsements

LESSON 5.1 INTRODUCTION TO THE BUSINESS AUTO POLICY**The Declarations (1:42)**

Who: *"Who" is the named insured. Remember, in business, the named insured can be either a person or an organization.*

What: *"What" shows the different coverages provided to the insured.*

When: *"When" refers to the policy period, from the start date to the end date.*

Where: *"Where" provides the address of the insured, including the state where the vehicles are registered.*

The Conditions (2:15)

What do the Conditions address?

The Conditions section of the policy presents the rules for the insured and the insurance company under the contract. These conditions address loss situations, premium payment, behaviors of the parties, locations where the policy applies, and other issues.

Coverage Form (2:31)

What does the Coverage Form outline?

The Coverage Form outlines the promises the insurance company is making to the insured. The Coverage Form also outlines the specific situations in which coverage does not apply.

The specific situations in which coverage does not apply are known as exclusions.

Additions to a policy that amend the coverage provided are known as endorsements.

LESSON 5.1 INTRODUCTION TO THE BUSINESS AUTO POLICY

There are three types of automobile coverage forms that are used to provide coverage for different types of businesses. Describe each one.

The Business Auto Coverage (BAC) Form *is designed to provide liability and/or physical damage coverage for owned, non-owned, or hired/borrowed autos that may be used in the named insured's business operations. This coverage form is also used for auto service risks, including repair shops, service stations, storage garages, public parking places, and tow truck operators. (3:49)*

The Business Auto Coverage Form is designed to cover most businesses.

The Motor Carrier Coverage Form *is designed to insure businesses that transport goods for themselves or for others. (4:23)*

The Auto Dealers' Coverage Form *is designed to insure those businesses that are in the auto and trailer dealer business and have unique exposures related to that business. (4:40)*

LESSON 5.1 INTRODUCTION TO THE BUSINESS AUTO POLICY**Types of Autos the Business Auto Policy Insures**

There are three categories of autos covered by the Business Auto Policy. What are they? Describe each one.

1. Owned auto: *An owned auto is an auto that is owned in the name of a business or organization, or owned by a sole proprietor, and being used for business purposes. (5:21)*

2. Hired auto: *A hired auto is an auto that a business organization or sole proprietor leases, hires, rents, or borrows. But hired autos don't include autos belonging to employees or partners or any of their family members. (5:47)*

3. Non-owned auto: *A non-owned auto is an auto that a business organization or sole proprietor doesn't own, hire, rent, or borrow in connection to the business. Non-owned autos include autos belonging to employees or partners or any of their family members. (6:01)*

LESSON 5.1 INTRODUCTION TO THE BUSINESS AUTO POLICY

The Business Auto Policy is a little different from other policies that you may have seen. In particular, it uses numerical symbols to designate which autos are covered for which coverages. These symbols must appear on the Declarations page for a particular coverage to apply to a type of auto. If the symbol isn't there, the coverage isn't there for that category of auto.

BUSINESS AUTO POLICY NUMERIC COVERAGE SYMBOLS	
Symbol 1	<i>Any Auto</i>
Symbol 2	<i>Any Owned Auto</i>
Symbol 3	<i>Owned Private Passenger Autos Only</i>
Symbol 4	<i>Owned Autos Other Than Private Passenger Autos Only</i>
Symbol 5	<i>Owned Autos Subject to No Fault</i>
Symbol 6	<i>Owned Autos Subject to a Compulsory Uninsured Motorists' Law</i>
Symbol 7	<i>Specifically Described Autos</i>
Symbol 8	<i>Hired Autos Only</i>
Symbol 9	<i>Non-Owned Autos Only</i>
Symbol 19	<i>Mobile Equipment Subject to Compulsory Insurance</i>
Symbol 10	<i>Can create or restrict coverage for types of autos that are described in endorsement CA 99 54</i>

LESSON 5.1 INTRODUCTION TO THE BUSINESS AUTO POLICY

ACTIVITY: WEIGHING THE PROS AND CONS

Using your 5.1 Notes Guide for reference, what are the advantages and disadvantages of the following types of business autos? What are your thoughts? Put yourself in the position of owning a business.

Business Auto	Pros	Cons
Owned	<i>Students' answers will vary</i>	<i>Students' answers will vary</i>
Hired	<i>Students' answers will vary</i>	<i>Students' answers will vary</i>
Non-Owned	<i>Students' answers will vary</i>	<i>Students' answers will vary</i>

LESSON 5.2 BUSINESS AUTO: COVERED PERSONS**NOTES GUIDE**

In this lesson, we will focus on who is considered a covered person under the Business Auto Policy.

Coverage A of the BAP outlines specifically who is insured, and there are three major groups. Describe each one.

1. The Named Insured: *the person or organization shown on the Declarations page (0:43)*
2. Permissive Users: *employees and others operating autos on behalf of the organization (1:44)*

When is a permissive user excluded from coverage? *(3:10)*

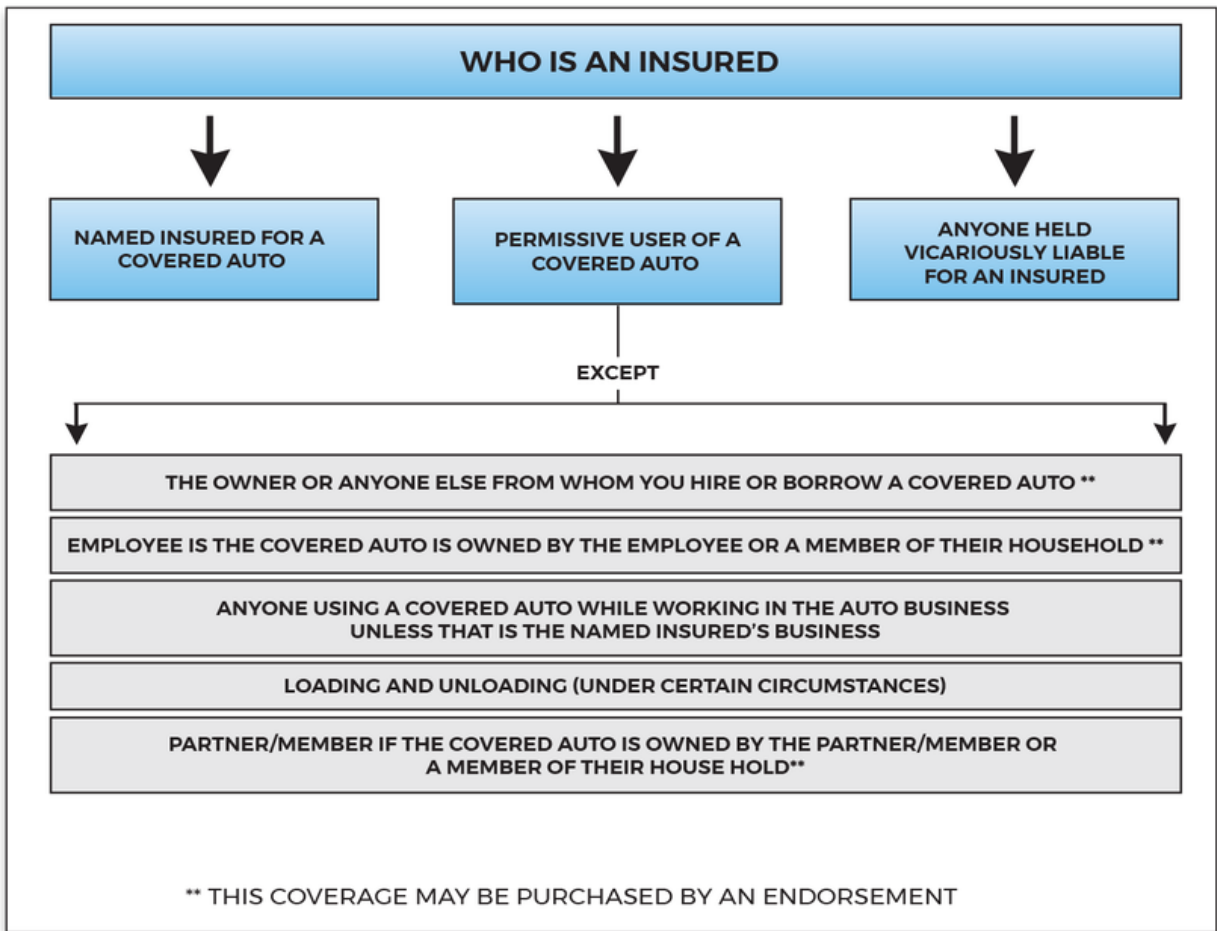
1. *When the driver is the owner of a hired or borrowed covered auto.*
2. *When an employee uses a covered auto that they or a member of their household owns.*
3. *When using a covered auto in an auto-type business.*
4. *When non-employees are engaged in loading or unloading vehicles.*
5. *When a partner uses their personally owned auto.*

LESSON 5.2 BUSINESS AUTO: COVERED PERSONS

- 3. Vicarious Insureds: *persons or organizations held liable for the conduct of the insured.* (5:42)

What is vicarious liability? (5:50)

Vicarious liability is when one party is held responsible for the actions of another party due to the nature of their relationship.



Who is an Insured under a BAP can be amended by using an endorsement.

LESSON 5.2 BUSINESS AUTO: COVERED PERSONS**ACTIVITY: USING A BUSINESS AUTO FOR PERSONAL USE CASE**

Read the article, *Employees Furnished a Company Auto Face a Coverage Gap*, by clicking on or typing the link below into your web browser.

<https://www.thebalancesmb.com/employee-drivers-avoid-this-coverage-gap-462434>

Answer the following questions related to the article:

Why is Melinda not considered an insured under the Business Auto Policy?

The policy covers the named insured (Creative Concepts) for claims involving any covered auto. It also covers anyone driving a vehicle owned or hired by the named insured with the company's permission.

Why might the claim Bill filed against Melinda not be covered under Creative Concept's Business Auto Policy?

At the time of the accident, Melinda did not have Creative Concepts' permission to use the vehicle.

Why might the claim be denied under a Personal Auto Policy, as well?

Most Personal Auto Policies exclude coverage for any vehicle furnished or available for the regular use of the named insured or their family member.

LESSON 5.3 BUSINESS AUTO POLICY COVERAGE

NOTES GUIDE

The Business Auto Policy (BAP) provides coverage for liability, physical damage, medical payments, and uninsured motorists. In this lesson, we will focus on applying the liability exclusions of the business auto coverage form to specific situations. By the end of the lesson, you should be able to identify types of liability losses that are not covered by the Business Auto Policy.

What is liability insurance designed to do? (0:56)

The liability coverage of the Business Auto Policy is designed to pay for injuries to others and damage caused by an insured operating a covered auto.

Liability is created when an insured commits a tort, or a legal wrong done to others.

The legal principle of negligence is used to determine whether the operator of an auto is responsible for an accident. (1:25)

Negligence has four elements, what are they? (1:32)

1. *a duty owed to others, such as obeying laws and driving carefully*
2. *a breach of that duty*
3. *provable damages or harm must have occurred*
4. *the breach of the duty is the proximate cause of the injury or damage*

The Liability Insuring Agreement

The first few words of the Insuring Agreement make it clear that payment will only be made for sums an insured is legally obligated to pay. (2:44)

LESSON 5.3 BUSINESS AUTO POLICY COVERAGE

Claims Settlements

Once the company determines the likely result of a suit, should there be one, it may choose to make an offer of settlement to the injured party. The injured party, however, is under no obligation to accept an offered settlement.

What happens when an injured party refuses to consider a settlement offer that is within the limits of the policy? (5:08)

If the injured party refuses to consider settlement within the limits of the policy, the company has no choice but to wait for a lawsuit to be filed and then mount a defense of the insured.

Supplementary Payments

In addition to paying what it is legally obligated to pay on behalf of an insured and providing a defense to the insured, there are additional things an insurance company agrees to pay. These are found in the Supplementary Payments section of the policy.

List the supplementary payments the insurance company agrees to pay (5:35)

- *all the expenses they incur in the investigation and defense of the insured*
- *the cost of bail bonds for insureds up to \$2,000 and cost of bonds for release of attachments up to the limit of insurance*
- *reasonable expenses of the insured to comply with the requests of the company, including up to \$250 per day for lost earnings*
- *all court costs and post-judgment interest*
- *Out-of-State Coverage Extension*

LESSON 5.3 BUSINESS AUTO POLICY COVERAGE

Exclusions

Now let's look at the exclusions that remove some of the protections outlined in the Insuring Agreement. There are thirteen liability exclusions found in the BAP coverage form, and other exclusions may be added by endorsement. In this lesson, we will explore the first five of these exclusions. Describe each of the first five exclusions below.

- 1) The Expected or Intended Injury Exclusion: *Coverage will not apply if the injury was intended or expected from the insured's standpoint. (7:20)*

- 2) The Contractual Liability Exclusion: *Contractual assumptions of liability by an insured are not included in liability coverage unless the contractual assumption was part of an insured contract as defined in the policy, or the insured would have been liable anyway. (8:04)*

- 3) The Workers' Compensation Exclusion: *The BAP never pays amounts that an insured is obligated to pay under any workers' compensation, disability, or similar laws. (9:59)*

- 4) The Employee Indemnification and Employer's Liability Exclusion: *There is no coverage under the BAP for any obligation of the insured to pay for bodily injury to an employee injured in the course of their employment, even if the claim is made by a family member of the injured employee. (10:28)*

- 5) The Fellow Employee Exclusion: *There is no coverage for liability of one insured employee who injures another insured employee through negligence. (11:16)*

LESSON 5.3 BUSINESS AUTO POLICY COVERAGE**ACTIVITY: FOUR ELEMENTS OF NEGLIGENCE**

Write a case study involving an employee who is using a business auto to make a flower delivery to a customer's home and gets into an accident. It has been determined the employee (driver) was negligent. Remember, the Insuring Agreement states payment will be made only for sums an insured is LEGALLY obligated to pay. When you are finished writing the case study, outline the four elements of negligence.

CASE STUDY: *you may need a separate sheet of paper to write your case study.*

a duty owed to others: *answers will be based on the case study*

Ex: (individuals driving an auto must do so in a manner that keeps others safe)

breach of that duty: *answers will be based on the case study*

Ex: (driver was texting and driving which caused them to swerve into oncoming traffic)

provable damages or harm must have occurred: *answers will be based on the case study*

Ex: (the other driver was severely injured and was airlifted to a trauma center)

the breach of the duty is the proximate cause of the injury or damage: *answers will be based on the case study.*

Ex: (the driver was not paying attention to the road resulting in distracting driving, which was determined as the cause of the accident which injured the other driver)

LESSON 5.4 LIABILITY AND PHYSICAL DAMAGE COVERAGE

NOTES GUIDE

In this lesson, we will complete our review of the liability exclusions found in the Business Auto Policy and discuss Physical Damage coverage. The objectives are to ensure that you can apply the liability exclusions, as well as the physical damage exclusions, in specific situations. In addition, you will be able to determine how specific policy conditions apply in differing circumstances. Let's continue our review of the liability exclusions by looking at the sixth exclusion found in the BAP.

- 6) The Care, Custody, or Control Exclusion: *eliminates liability coverage for damage to property that belongs to the insured, is being transported by the insured, or that the insured has in their custody or care. (0:37)*

- 7) The Handling of Property Exclusion: *eliminates coverage before the loading of property starts or after the unloading is completed. So, before the property is moved during the loading process, accidents would be covered under the CGL Policy. Likewise, after the property is set down during unloading, it is also covered under the CGL Policy. Accidents between and during the trip in the covered auto would be a claim under the BAP. (1:25)*

The facts of an accident are critical because they can determine whether the bodily injury or property damage from the accident should be paid by the Commercial General Liability Policy or the BAP. It is your responsibility to have a complete understanding of the facts to help determine how (or if) a policy will pay.

- 8) The Movement of Property by a Mechanical Device Exclusion: *removes coverage if the loading or unloading of the property is performed using a mechanical device such as a forklift. The use of a forklift would be covered under the CGL Policy. (2:43)*

LESSON 5.4 LIABILITY AND PHYSICAL DAMAGE COVERAGE

- 9) The Operations Exclusion: *eliminates liability coverage for the operation of two types of equipment.*
- a) *mobile equipment, as stipulated in the definitions section of the policy.*
 - b) *machinery or equipment that is attached to or part of a land vehicle that would qualify under the definition of mobile equipment if it were not subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged. (3:06)*
- 10) The Completed Operations Exclusion: *eliminates coverage for liability arising out of the completed operations. The CGL Policy and Garage Policies provide coverage for completed operations. (4:56)*
- 11) The Pollution Exclusion: *eliminates any liability relating to a pollution event involving a covered auto. (5:17)*

However, there are two exceptions.

- a. *if the pollutants come from the operational systems of the covered auto itself—for example, the fuel, oil, or hydraulic fluid—as a result of an accident, then coverage for bodily injury, property damage, and covered pollution costs applies.*
 - b. *if an accident occurs away from the insured's premises—the pollutants are not in or on a covered auto—AND the discharge of pollutants was caused by the accident involving the covered auto, then coverage for pollution costs applies.*
- 12) The War Exclusion: *damage as a result of war or warlike actions are excluded. (6:35)*
- 13) The Racing Exclusion: *eliminates coverage for damage caused by any organized racing or stunt activities, including any practice, or even preparation.*

LESSON 5.4 LIABILITY AND PHYSICAL DAMAGE COVERAGE**Physical Damage Coverage**

There are three types of physical damage coverage in the BAP Describe each one.

Comprehensive Coverage: *any type of damage to the vehicle, EXCEPT for the covered auto's collision with another object or the vehicle's overturn. The policy clarifies certain damages covered as a comprehensive loss. These perils are glass breakage, hitting a bird or animal, and falling objects or missiles (rocks, etc.). (8:17)*

Specified Causes of Loss: *The policy lists the specified causes of loss. They are fire, lightning, explosion, theft, windstorm, hail, earthquake, flood, mischief, or vandalism. This category also includes the sinking, burning, collision, or derailment of any conveyance that is transporting a covered auto. (9:24)*

Collision: *The policy will pay in the event of a covered auto's collision with another object or if the vehicle overturns. (10:14)*

LESSON 5.4 LIABILITY AND PHYSICAL DAMAGE COVERAGE

Other Coverages

Towing: *Coverage is only available for private passenger type vehicles and includes the cost of labor if it is performed at the place of disablement. (10:47)*

Transportation Expenses: *This extension pays from twenty dollars per day up to a maximum of six hundred dollars, total, for the insured to secure temporary transportation because of the total theft of a private passenger auto. (11:12)*

Loss of Use Expenses: *This extension applies to Hired Autos only. The policy pays from twenty dollars per day to a maximum of six hundred dollars for the legal responsibility of the insured to pay for loss of use damages resulting from physical damage to a rented auto, or an auto hired without a driver. (11:50)*

Physical Damage Exclusions

Name the exclusions to physical damage on the BAP. (12:22)

nuclear hazards; war; military action; professional or organized racing; demolition contests; stunt activities; wear and tear; freezing; mechanical or electrical breakdown; blowouts; punctures; other road damage to tires; loss to equipment, such as tapes, records, CDs, or other audio-visual or data devices and speed measuring or jamming equipment. Loss is also excluded for equipment that reproduces, receives, or transmits audio, visual, or data signals, as well as the equipment's accessories and diminished value.

What is diminished value? *Diminished value is the vehicle's loss in value, even after repairs are completed, from an accident. (13:15)*

LESSON 5.4 LIABILITY AND PHYSICAL DAMAGE COVERAGE

Payment under Physical Damage Coverage

How much will be paid under Physical Damage coverage? (13:58)

The policy will pay the lesser of the actual cash value of the damaged or stolen property at the time of the loss, or the cost to repair or replace the damaged or stolen property with other property of like kind and quality.

When calculating the actual cash value, an insurance company considers how much a vehicle has depreciated. What is depreciation? (14:38)

Depreciation is the amount of value the auto has lost due to its age, mileage, and/or wear and tear.

There is typically a deductible for each Physical Damage loss under the BAP. What is a deductible? (14:51)

The deductible is the amount the insurance company reduces its payment for a loss, and it is shown in the Declarations page for each coverage.

Conditions of the BAP Insurance Contract (15:52)

The conditions of an insurance contract outline the rules of how the contract works. Each condition describes the obligations of the parties, should there be a loss. The BAP Conditions include five specific rules regarding appraisal of the loss and what the parties do if there is a disagreement.

- 1) The first condition outlines how losses will be appraised.
- 2) The next condition outlines the duties the insured has in the event of a loss, including reporting of the loss, cooperating with the insurance company's investigation of the loss, authorizing the insurance company to obtain important information, and submitting to an examination under oath.

LESSON 5.4 LIABILITY AND PHYSICAL DAMAGE COVERAGE

- 3) The third condition focuses on conditions under which the insured can _____ *start legal proceedings* _____ against the company.
- 4) The fourth outlines the _____ *payment of physical damage losses* _____.
- 5) The fifth condition states that the insured may not _____ *transfer their rights* _____ of recovery against others _____ *after the loss* _____.

What are some of the other conditions in the BAP that seem important for your client to know? *Student responses may vary, but should include answers such as:*

bankruptcy, concealment, misrepresentation, or fraud; rules that apply if other insurance covers the loss; rules about insured contracts; Policy Period and the Coverage Territory

LESSON 5.4 LIABILITY AND PHYSICAL DAMAGE COVERAGE**ACTIVITY: BAP EXCLUSIONS IN PLAIN ENGLISH**

Choose an exclusion from the list below. Imagine an insured calling your office to ask if their claim (which will be considered an exclusion) is covered. Write a short script, using plain English, explaining the exclusion to them. Make sure to check for understanding, and include that in the script. Use your Notes Guide from 5.4, as well as the Business Auto Coverage form, for help. Practice this script with another student, or via digital means, with your instructor. Allow them to give you feedback on how well they understood you. You may need an extra sheet of paper or separate document to complete this activity.

Student responses will vary.

Business Auto Policy

1. The Care, Custody, or Control Exclusion
2. The Handling of Property Exclusion
3. The Movement of Property by a Mechanical Device Exclusion
4. The Operations Exclusion
5. The Completed Operations Exclusion
6. The Pollution Exclusion
7. The War Exclusion
8. The Racing Exclusion