

C131 Advanced Skills for the Insurance Broker and Agent

Addendum—July 2007

(To be used with the 2004 edition of the textbook.)

Studies 1–10 *There are numerous changes to marginal headings throughout the textbook and a number of headings have been deleted. For the sake of brevity, this addendum does not address these changes unless the accompanying text material has also been changed.*

Study 1, page 6–7 *The second and third sentences of the first paragraph has been deleted.*

Study 2, pages 5–6 *The following paragraph has been moved from page 6 to page 5, and is now the third paragraph under the heading **Qualifying the Client**:*

Renewal refused

Also, determine if the current insurer has refused renewal or offered renewal on limited coverage terms. If so, has the existing broker offered alternatives? If the client can advise which insurers have been approached, this will aid in your deliberations.

Study 4, pages 24–25 *Sample **Broker of Record Letter** and **Broker Assignment Letter** have been deleted.*

Study 5, page 16 *The paragraphs beside the marginal headings “Hardware and firmware” and “Software” have been changed to the following:*

Hardware and firmware

Hardware can be described as the physical parts of a computer, such as the hard-drive, monitor, printer, or processor (also known as the CPU). Firmware can be described as the programming instructions embedded into a hardware device. In the past, firmware was not generally considered to be changeable (without replacing the hardware device). However, firmware for many devices can now be updated without the need for additional hardware. An example of firmware is the operating system on a router—a device used for connecting computer networks.

Firmware is sometimes encoded onto a removable physical key called a dongle, which must be plugged into the computer for some types of software to be used. The dongle verifies that a user has a license for the software, and thus is a security measure to help prevent software fraud. Include the value of such a key and any upgrades to it as part of the limit of insurance.

Software

Software refers to the programs that enable a computer to perform specific tasks and functions. It can be installed or recorded onto media, such as computer hard drives, discs, or tapes, among others.

Media can be generally defined as anything that software or data are stored on. Due to the inherent difficulty of separating the two, most EDP wordings include media as part of software.

Study 5, page 24 *The following paragraph has been added after the first paragraph beneath the heading **Gross Earnings or Business Form**:*

Due to the potentially high cost of insuring the wages of all employees in the event of a business interruption, businesses can elect to insure wages for a comparatively shorter period, such as two weeks, 30 days, or more. An exception is made for the wages of key employees whose services would still be required following an interruption.

Study 6, pages 3, 5 *The following paragraph has been moved from page 5 to second-last paragraph on page 3:*

Generally, crime policies are not subject to deductibles. They also have the advantage that coinsurance does not apply, making it possible for the client to select a limit that reflects the estimated probable loss, rather than the total value of the property. Each crime policy is subject to individual insuring agreements, perils, exclusions, conditions, and limitations.

Study 6, pages 36–37 *The section under the heading **Garage Automobile Policy** has been changed to the following:*

Garage Automobile Policy

Commercial general liability policies, and automobile owner's policies commonly exclude exposures arising from the sale, repair, maintenance, service, storage, or parking of automobiles. But businesses engaged in these activities, or businesses with these exposures incidental to their operations require coverage for such exposures. This coverage is available under a garage automobile policy (or garage policy).

Insured Persons under a Garage Policy

Like an automobile owner's policy, a garage policy covers the named insured, and any person who drives, occupies, or operates an automobile owned by the named insured with the insured's consent. Because the policy also covers some non-owned vehicles, any person who drives or operates an automobile in connection with the business, and with the insured's consent is also covered—unless that person is the owner of the vehicle or the use of the vehicle is otherwise excluded.

Also, personnel employed by other garages are excluded while working on or occupying vehicles defined in the policy in the course

of the business, unless the person is the insured or an employee or partner.

Insured Automobiles under a Garage Policy

Garage policies cover three main classes of automobile: (i) owned automobiles, (ii) customers' automobiles, and (iii) non-owned automobiles.

(1) **Owned automobiles** are those owned by the insured and used for pleasure or in connection with the business stated, and any automobiles sold but not delivered. Exceptions are automobiles being used for an excluded use, or those defined in the policy as excluded automobiles.

Garage policy wordings can vary between provinces, so the definition of excluded uses and vehicles may also vary. Refer to the garage policy wordings used by insurers your brokerage does business with to determine if a use or vehicle is excluded or not.

Some examples of excluded uses include

- an employee using his or her own automobile on business for which she or he is paid; or
- the loan of an automobile to a customer while the customer's automobile is being serviced or repaired.

Some examples of excluded vehicles include

- vehicles designed or modified for racing; or
- vehicles designed for the bulk transport of petroleum products.

(ii) **Customers' automobiles** are those being towed, pushed, driven or in the care, custody, or control of the insured in connection with the business stated. Exceptions are vehicles owned, rented, or leased by or to the insured, and those sold but not delivered.

(iii) **Non-owned automobiles** are those that are neither owned nor a customer's, but are used for pleasure or in the business stated.

Garage Policy Coverages

Third Party Liability Coverage

The garage policy covers the insured against liability imposed by law for bodily injury to any person, and damage to the property of others arising from the ownership, use or operation of an owned automobile, a customer's automobile, or a non-owned automobile. The exclusions are similar to those found in the automobile owner's policy. The garage policy also has additional exclusions for damages

covered by other forms of insurance, such as a provincial worker's compensation plan.

**Additional
Agreements**

The Additional Agreements of the Insurer and Additional Agreements of the Insured under the garage policy's Third Party Liability coverage are much like those of the automobile owner's policy.

Accident Benefits Coverage

Although there are some variations among the provinces, Accident Benefits apply in much the same manner and to the same extent as under an automobile owner's policy. The following are generally considered to be insured persons under this coverage, subject to certain conditions described in the policy:

**Persons
insured
under
Accident
Benefits**

- An occupant of an owned or customer's automobile, and any person who is not an occupant but is struck by an owned or customer's automobile.
- The insured, his or her spouse and dependants of either while they are not occupants of any other automobile, but are struck by another automobile; or while they are passengers of another automobile except one used for certain commercial purposes.
- Any employee or partner of the insured for whose regular use an automobile is provided, along with his or her spouse or dependent relatives, while not occupants of any other automobile, but are struck by another automobile; or while they are passengers of another automobile (subject to additional conditions described in the policy).

In Ontario, the definition of insured is broader and includes

- any person who suffers injuries as a result of an accident involving an owned, non-owned, or customer's automobile who has no recourse either under a motor vehicle liability policy where the person is a named insured, spouse, or dependent of a named insured, or against the insurer of the automobile that struck him or her or in which he or she was an occupant.

Loss of or Damage to Owned Automobiles Coverage

Under this coverage, the garage policy indemnifies the insured against direct and accidental loss of or damage to owned automobiles and attached equipment. In most provinces, insureds can choose from four optional coverages. Three of them—**Collision or Upset**, **Comprehensive**, and **Specified Perils**—are similar to those found on the automobile owner's policy. The fourth, **Specified Perils**

Excluding Theft, is only available on a garage policy. In Quebec, the four coverage options are **All Perils, Collision or Upset, Comprehensive, and Specified Perils**.

Application of deductibles

This section of the policy is also subject to a deductible clause. Before explaining this clause to your clients, refer to the garage policy wording to confirm how the deductible is applied to losses because it can vary from an automobile owner's policy. For instance, it may be applied to each automobile for losses under Collision coverage, but to each occurrence for losses under Comprehensive or Specified Perils coverage.

There are also exclusions to the garage policy's physical damage coverage for owned vehicles. Many of the exclusions are the same as those on an automobile owner's policy, such as wear and tear of the vehicle and attached equipment.

Owned automobile loss or damage coverage exclusions

Due to the type of coverage provided by the garage policy, there are some unique exclusions. Some of them are described below, but consult the garage policy wordings used by your brokerage for a complete list and description of them. (These exclusions may also apply to other sections of the policy.)

Loss or damage caused by theft from any open lot or unroofed space owned, rented or controlled by the insured in connection with the business is excluded. This is commonly referred to as open lot pilferage. In some cases, insureds can purchase an endorsement providing coverage for this.

Some garage policies also have exclusions applicable to vehicles designed to transport other vehicles or damage to other vehicles while they are being transported by the insured's vehicle. Some wordings exclude tow trucks while others do not.

Additional Agreements of the Insurer cover some expenses that often arise as a result of an automobile accident, such as the payment of fire department charges or customs duties. Under the Agreements of the Insured, he or she agrees (if the insurer requests it) to replace or repair property damaged as a result of an insured peril at actual cost to the insured.

Liability for Damage to Customers' Automobiles in the Care, Custody or Control of the Insured

This coverage indemnifies the insured for liability arising from the loss of or damage to customers' automobiles or their attached equipment and customers' loss of use of their automobiles, for which the insured is legally liable. There are two coverages available: **Collision or Upset**, or **Specified Perils**. Your client (the insured) may purchase one or both of them. Each coverage is subject to its own exclusions and limit of liability, generally stated as a limit per

occurrence (although it can be a limit per vehicle). A deductible may also apply.

**Coinsurance
relates to
number of
automobiles**

This section of the policy is also subject to a coinsurance clause, which applies to the maximum number of customers' automobiles in the insured's care, custody, or control at any one time. The insured becomes responsible for his or her proportional amount of the loss if the number of automobiles exceeds the stated maximum.

Garage Policy Premiums

Some of the risks that you quote under a garage policy can have fluctuating vehicle values due to their business operations, such as automobile dealers or body shops. Because of this, determining an adequate premium at the beginning of the policy term may be difficult.

**Adjustable
premium
computation**

For these risks, an advance premium for the policy is generally charged at the inception of the policy period. This advance premium is then adjusted at the end of the term, when the insured is required to provide the insurer with a written statement of the current information necessary to adjust the premium. For example, the business might provide information regarding its payroll, or the number of employees, among other things.

Depending on the amount of the total adjusted premium, the insured may be required to pay the difference if it is greater than the advance premium, or he or she may receive a refund if it is less. The insurer has the right to audit the insured's books and records at any reasonable time for the purpose of determining facts relating to the insurance.

**Monthly
average basis**

Premiums may also be computed on a **monthly average basis**. Here the annual premium is calculated for a coverage limit based on an average of the insured's projected monthly exposures. The advance premium is 75 percent of this annual premium, but is adjusted at the end of the term according to the insured's actual monthly exposures. The insured is required to file monthly reports with the insurer detailing the actual monthly exposures. Failure to do so may result in premium penalties.

Endorsements to the Garage Policy

The garage policy is used to cover many different types of businesses, so endorsements may be required to tailor coverage to the needs of your specific clients. Some endorsements are similar to automobile owner's policy endorsements. Others are specific to the garage policy, but they are beyond the scope of this course. For detailed discussion of commercial automobile insurance, and the garage policy refer to C48 Automobile Insurance—Part 2.

Study 6, pages 43–45 *Delete questions 5, 12, 14, 17, 21, 23, 28, 40, 44, 51, and 55. Replace questions 13, 18, 20, 22, 27, 34, 35, 45, 52, 54, and 57 with the following:*

13. How does money and securities broad form differ from the insurance provided by a combination of inside/outside robbery and safe burglary wordings? Is there any difference in the underwriting information required for each?
18. Why would a client purchase separate coverage for damage to the building by burglary or robbery if he or she already has other property insurance?
20. What does each of the following types of bonds cover:
 - a) **Individual** fidelity bonds
 - b) **Blanket** fidelity bonds
 - c) **Primary commercial** bonds
 - d) **Blanket position** bonds
22. What practices and procedures can lead to fidelity losses and what loss prevention or loss resolution techniques can be used to reduce the loss exposure?
27. Describe the coverage available for extortion and computer fraud under 3-D policy extensions.
34. What does liability insurance cover?
35. What is an aggregate limit?
45. What is covered by employment practices liability insurance?
52. How does coverage under boiler and machinery business interruption policies differ from that of their property insurance equivalents?
54. Explain what a non-owned automobile exposure is and give an example of a business that may have this exposure.
57. When might a **monthly reporting basis fleet** or **blanket fleet** endorsement be used? What is required by the client for each of these forms?

Study 7, page 5 *The heading **Risk Analysis and Assessment** has been changed to **Risk Analysis and Assessment of Manufacturers**.*

Study 7, page 15 *Definition of ISO changed to the following:*

ISO (International Organization for Standardization – with ISO derived from the Greek word meaning equal) is a non-governmental organization

that develops standards applicable to many types of businesses and technologies. For instance, the ISO 9000 certification standard is used to measure quality.

Study 7, page 23 *Section entitled **Insurance** has been changed to the following:*

Insuring a Manufacturer

Throughout our discussion about analyzing and assessing manufacturing risks, we have referred to loss control recommendations and various insurance coverages, where applicable. In the following section we collate these comments on coverage and expand on them to complete the insurance program for our case study client, D.J. Malbright Canada Ltd. As we have discussed many of these coverages elsewhere in this text, this will be a brief synopsis only.

Study 7, page 26 *The heading **Risk Analysis and Assessment** has been changed to **Risk Analysis and Assessment of Distributors**.*

Study 7, page 43 *Delete questions 3, 5, 10, 16, 17, 24, 34, and. Replace questions 8, 9, 11, 20, 21, 35, and 43 with the following:*

8. What crime exposures might a manufacturer have?
9. Identify business interruption exposures that are associated with manufacturing risks.
11. How would you calculate the amount of insurance required by a manufacturing risk? Is finished stock included in this amount?
20. What information can a client's Web site provide?
21. Under what circumstances could a manufacturer be held liable even if its product did not cause the damage?
35. How would the method a distributor uses for transporting goods affect the type of insurance coverage required? (Use examples in your answer.)
43. Should a distributor rely on a manufacturer outside of Canada or the United States having products liability coverage?

Study 8, pages 43–45 *Delete questions 1, 4, 6, 20, 21, 25, 37, and 43. Replace questions 5, 10, 16, 22, 23, 24, 26, and 27 with the following:*

5. (a) Identify the main exposures that a broker would consider when assessing and analyzing a contractor risk.

(b)What types of insurance might a broker recommend to a contractor to cover these exposures? (Identify wordings by their appropriate name where applicable.)

10. What information would a broker require from a contractor when assessing the contractor's mobile equipment exposure?
16. What are the additional coverages that are applicable to contractors with operations in the United States?
22. Name the most common types of bonds required by contractors.
23. Why is financial information required when writing bonds for a client and what might this information include?
24. In addition to financial statements, what information will a surety underwriter request?
26. What is a bonding facility and how does it operate?
27. How might a contractor use loss control methods such as improving security and adjusting its employee selection process to improve its risk?

Study 9, page 27 *In the paragraph following the marginal heading "XCU Coverage," XCU means explosion, collapse and underpinning (not underground).*

Study 9, page 37 *Change review question 15 to the following:*

15. At what point does the coverage provided by a builders risk policy cease?

Study 10, page 15 *Delete last paragraph.*